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Finanční analýza společnosti China Unicom

Financial Analysis of China Unicom Company

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Description:

1. Introduction
2. Description of the financial analysis methodology
3. Financial characterization of China Unicom
4. Financial analysis of China Unicom
5. Conclusion

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References:

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Content

Chapter1 Introduction

Topic is the financial analysis of one of the telecommunications industries in China. The telecommunications industry is one of the fastest growing industries in China, it also is an industry related to people's lives closely. We will introduce a company which it's important in telecommunications industry in China. It is China Unicom.

China Unicom has a pivotal position in the telecommunications industry. Through we use the financial methods to analysis of financial statement and kinds of ability of China Unicom from 2006 to 2010. We have three aims.

First, we can know about operation of capital changes in enterprise production and management and evaluate operating results, financial condition and its changes to serve financial management and operation. Second, understand the past and to know how the operation in the company, we should find the weakness from the past. The advantages and disadvantages of company are reflected in the indicators of solvency, earning capacity, the development potential of the enterprise. Make certain the strength and weakness of company to help company compete with another and set development strategies for company. Third, evaluation enterprise current situations and find out problems, forecasting corporate future that what we should do next step and how to solve the problems, we can help to make the right decisions for the company management to provide accurate information or basis.

In March 2002, China Unicom has opened a CDMA network, new business options for the mobile users, at the same time, it made important contributions to reduce the price in China's mobile communications business and high-speed growth of user. However, the CDMA network hasn't steady development but face many problems. A few years later, the development of the CDMA network is improved. Profit for the whole year is the significant results of company in 2006. At the same time, China Unicom's GSM network begins to the upgrade and renovation. All provincial cities and some large cities have GPRS construction completed at the end of 2006, it coverage of 100 cities.

With the accelerated growth of the telecom industry, China Unicom share improved significantly. The second half of 2010, the telecommunications industry revenue growth higher than the level of GDP, mainly due to China Unicom's 3G and broadband services revenue increased. In China's three major operators, China Unicom is the fastest development speed, China Unicom revenue share in the first half of this year, an increase of two points. Expected the two years is the peak period of the telecommunications industry revenue, China Unicom will get a larger market share.

The thesis is divided into five chapters. Chapter one, introduced the China Unicom's position in China's telecommunications industry. Explain the aim that we choose China Unicom to perform financial analysis and we outline the contents of each chapter. The chapter two is the introduction of some basic financial analysis methods, examples, and applications. The chapter three is the introduction background of China's telecommunications industry and the history and development of China Unicom and future outlook of China Unicom, some basic information of China Unicom's financial position. The chapter four uses some financial analysis on the financial statements of China Unicom from 2006 to 2010, to have results and evaluations. The chapter five is conclusions of the full text.

Chapter2 Description of the financial analysis methodology

A financial statement analysis[1] is an important business activity, which helps the management assesses the stability and profitability of the business. It is important to implement a financial analysis, as it enables the management to decide upon the continuation or discontinuation of a project and to take decisions about the purchase of raw material and machinery, investments, lending, and so on. Financial statement analysis involves the comparison of information of one entity over different periods of time or the comparison of information of different entities during the same period. The four main statements that are analyzed during the procedure include the balance sheet, income statement, statement of owner's equity, and statement of cash flows.

Sources of the most financial analysis methodology of this chapter are from LEE, A.C, etc. (2009). BERNSTEIN, Leopold, (1999).

2.1 Financial analysis and purposes

Business is mainly concerned[2] with the financial activities. In order to ascertain the financial status of the business every enterprise prepares certain statements, known as financial statements. Financial statements are mainly prepared for decision making purposes. But the information as is provided in the financial statements is not adequately helpful in drawing a meaningful conclusion. Thus, an effective analysis and interpretation of financial statements is required. Analysis means establishing a meaningful relationship between various

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1 It based on website http://www.focus.com/briefs/what-are-different-methods-financial-statement-analysis/

2 It based on an article <<financial statements analysis-introduction>> from http://www.data-engine.com/pdf_module_3_financial_statement_analysis.html

items of the two financial statements with each other in such a way that a conclusion is drawn.

By financial statements we mean two statements:

(i) Profit and loss Account or Income Statement

(ii) Balance Sheet or Position Statement

These are prepared at the end of a given period of time. They are the indicators of profitability and financial soundness of the business concern.

The term financial analysis is also known as analysis and interpretation of financial statements. It refers to the establishing meaningful relationship between various items of the two financial statements i.e. Income statement and position statement. It determines financial strength and weaknesses of the firm.

Analysis of financial statements is an attempt to assess the efficiency and performance of an enterprise. Thus, the analysis and interpretation of financial statements is very essential to measure the efficiency, profitability, financial soundness and future prospects of the business units. Financial analysis serves the following purposes:

Measuring the profitability

The main objective of a business is to earn a satisfactory return on the funds invested in it. Financial analysis helps in ascertaining whether adequate profits are being earned on the capital invested in the business or not. It also helps in knowing the capacity to pay the interest and dividend.

Indicating the trend of Achievements

Financial statements of the previous years can be compared and the trend regarding various expenses, purchases, sales, gross profits and net profit etc. can be ascertained. Value of assets and liabilities can be compared and the future prospects of the business can be envisaged.

Assessing the growth potential of the business

The trend and other analysis of the business provide sufficient information indicating the growth potential of the business.

Comparative position in relation to other firms

The purpose of financial statements analysis is to help the management to make a comparative study of the profitability of various firms engaged in similar businesses. Such comparison also helps the management to study the position of their firm in respect of sales, expenses, profitability and utilizing capital, etc.

Assess overall financial strength

The purpose of financial analysis is to assess the financial strength of the business. Analysis also helps in taking decisions, whether funds required for the purchase of new machines and equipments are provided from internal sources of the business or not if yes, how much? And it also to assess how much funds have been received from external sources.

Assess solvency of the firm

The different tools of an analysis tell us whether the firm has sufficient funds to meet its short term and long term liabilities or not.

2.2 Financial statements

Corporate annual and quarterly reports generally contain four basic financial statements: [3]balance sheet, income statement, statement of retained earnings, and statement of changes in

[3] LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

financial position. Using Johnson & Johnson (JNJ) annual consolidated financial statements as examples, we discuss in turn the usefulness of, and problems associated with the use of, each of these statements in financial analysis and planning. Finally, the uses of annual vs quarterly financial data are addressed.

2.2.1 Balance Sheet

The balance sheet describes a firm's financial position at one specific point in time. It is a static representation, as if a snapshot had been taken, of the firm's financial composition of assets and liabilities at one point in time. The balance sheet of Johnson & Johnson, shown in Table 2.1, is broken down into two basic areas of classification — total assets (debit) and total liabilities and shareholders' equity (credit).

On the debit side, accounts are divided into six groups: current assets, marketable securities — non-current, property, plant and equipment, intangible assets, deferred taxes on income, and other assets. Current assets represent those accounts that are of a short-term nature such as cash and cash equivalent, marketable securities and accounts receivable, inventories, deferred tax on income and prepaid expense. It should be noted that deferred tax on income in this group is a current deferred tax and will be converted into income tax within 1 year.

Table 2.1. **Consolidated balance sheets of Johnson & Johnson Corporation and consolidated subsidiaries (2000–2005) (dollars in millions).**

Assets	2000	2001	2002	2003	2004	2005
Current assets						
Cash and cash equivalent	$4278	$3758	$2894	$5377	$9203	$16,055
Marketable securities	2479	4214	4581	4146	3681	83
Account receivable	4601	4630	5399	6574	6831	7010
Inventory	2905	2992	3303	3588	3744	3959
Deferred taxes on income	1174	1192	1419	1526	1737	1845
Prepaid expenses and other receivable	1254	1687	1670	1784	2124	2442
Total current assets	**16,691**	**18,473**	**19,266**	**22,995**	**27,320**	**31,394**
Marketable securities — Noncurrent	657	969	121	84	46	20
Property, plant and equipment, net	7409	7719	8710	9846	10,436	10,830
Intangible assets, net	7535	9077	9246	11,539	11,842	6185
Deferred taxes on income	240	288	236	692	551	385
Other assets	1713	1962	2977	3107	3122	3221
Total assets	**$34,245**	**$38,488**	**$40,556**	**$48,263**	**$53,317**	**$58,025**

Liabilities and shareholder's equity

Current liabilities						
Loans and notes payable	$1489	$565	$2117	$1139	$280	$668
Account payable	2122	2838	3621	4966	5227	4315
Accrued liabilities	2793	3135	3820	2639	3523	3529
Accrued rebates, returns and promotion						
Accrued salaries, wages and commissions	529	969	1181	1452	1094	1166
Taxes on income	322	537	710	944	1506	940
Total current liabilities	**7255**	**8044**	**11,449**	**13,448**	**13,927**	**12,635**
Long-term debt	3120	2217	2022	2955	2565	2017
Deferred tax liability	255	493	643	780	403	211
Employee related obligations	1804	1870	1967	2262	2631	3065
Other liabilities	1373	1631	1778	1949	1978	2226

(*Continued*)

Source: LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

Table 2.1. (*Continued*)

Assets	2000	2001	2002	2003	2004	2005
Shareowners' equity						
Preferred stock-without par value	—	—	—	—	—	—
Common stock-par value $1.00	3120	3120	3120	3120	3120	3120
Net receivable from employee stock plan	−35	−30	−25	−18	−11	—
Accumulated other comprehensive income	−461	−530	−842	−590	−515	−755
Retained earnings	18,113	23,066	26,571	30,503	35,223	41,471
Less: Common stock held in treasury	342	1393	6127	6146	6004	5965
Total shareowners' equity	**20,395**	**24,233**	**22,697**	**26,869**	**31,813**	**37,871**
Total liabilities and shareholders' equity	**$34,245**	**$38,488**	**$44,556**	**$48,263**	**$53,317**	**$58,025**

Source: LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

Property encompasses all fixed or capital assets such as real estate, plant and equipment, and special tools and the allowance for depreciation and amortization. Intangible assets refer to the assets of research and development (R&D).

The credit side of the balance sheet in Table 2.1 is divided into current liabilities, long-term liabilities, and shareowners' equity. Under current liabilities, the following accounts are included: accounts, loans, and notes payable; accrued liabilities; accrued salaries and taxes on income. Long-term liabilities include various forms of long-term debt, deferred tax liability, employee-related obligations, and other liabilities. The stockholder's equity section of the balance sheet represents the net worth of the firm to its investors. For example, as of December 31, 2000, Johnson & Johnson had $0 million preferred stock outstanding, $3,120 million in common stock outstanding, and $18,113 million retained earnings. The total shareholder equity for this year is $20,395. Sometimes, there are preferred stock and hybrid securities (e.g. convertible bond and convertible preferred stock) on the credit side of the balance sheet.

The balance sheet is useful because it depicts the firm's financing and investment policies. The use of comparative balance sheets, those that present several years' data, can be used to detect trends and possible future problems. Johnson & Johnson has presented on its balance sheet, information for six periods: December 31, 2000; December 31, 2001; December 31, 2002; December 31, 2003; December 31, 2004; and December 31, 2005. The balance sheet, however, is static and therefore should be analyzed with caution in financial analysis and planning.

2.2.2 Income Statement

Johnson & Johnson's income statements are presented in Table 2.2 and describe the results of operations for a 12-month period, ending December 31. The usual income-statement periods are annual, quarterly, and monthly. Johnson has chosen the annual approach. Both the annual and quarterly reports are used for external as well as internal reporting. The monthly statement is used primarily for internal purposes such as the estimation of sales and profit targets, judgment of controls on expenses, and monitoring progress toward long-term targets.

Table 2.2. Consolidated statements of earnings of Johnson & Johnson Corporation and subsidiaries (2000–2005) (dollars in millions).

(Dollars in millions except per share figures)	2000	2001	2002	2003	2004	2005
Sales to customers	$29,846	$32,317	$36,298	$41,862	$47,348	$50,514
Cost of products sold	8908	9581	10,447	12,176	13,422	13,954
Gross profit	20,938	22,736	25,851	29,686	33,926	36,560
Selling, marketing, and administrative expenses	11,218	11,260	12,216	14,131	15,860	16,877
Research expense	3105	3591	3957	4684	5203	6312
Purchased in-process research and development	66	105	189	918	18	362
Interest income	−429	−456	−256	−177	−195	−487
Interest expense, net of portion capitalized	204	153	160	207	187	54
Other (income) expense, net	−94	185	294	−385	15	−214
	14,070	14,838	16,560	19,378	21,088	22,904
Earnings before provision for taxes on income	6868	7898	9291	10,308	12,838	13,656
Provision for taxes on income	1915	2230	2694	3111	4329	3245
Net earnings	4953	5668	6597	7197	8509	10,411
Basic net earnings per share	$1.65	$1.87	$2.20	$2.42	$2.87	$3.50
Diluted net earnings per share	$1.61	$1.84	$2.16	$2.40	$2.84	$3.46

Source: LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

The income statement is more dynamic than the balance sheet because it reflects changes for the period. It provides an analyst with an overview of a firm's operations and profit ability of the firm on a gross, and operating, and a net income basis. Johnson & Johnson's income includes sales, interest income, and other net income/expenses. Costs and expenses for Johnson & Johnson's include the cost of goods sold; selling, marketing, and administrative expenses; and depreciation, depletion, and amortization. The difference between the income and cost and expenses results in the company's net earnings. A comparative income statement is very useful in financial analysis and planning because it allows insight into the firm's operations, profitability, and financing decisions over time. Net earnings of Johnson & Johnson in 2000 were $4,953. In addition, the rule earnings per share and the diluted net earnings per share in 2000 were $1.65 and $1.63 respectively.

2.2.3 Statement of Equity

This statement presents the changes of the shareowners equity items in the balance sheet. Retained earnings are the most important item in the statement of equity. These are the earnings that a firm retains for reinvestment rather than paying them out to shareholders in the form of dividends. The equity statement is easily understood if it is viewed as a bridge between the balance sheet and the income statement.

The equity statement presents a summary of those categories that have an impact on the level of retained earnings: the net earnings and the dividends declared for preferred and common stock. It also represents a summary of the firm's dividend policy and shows how net income is allocated to dividends and reinvestment. Johnson & Johnson's equity is one source of funds for investment, and this internal source of funds is very important to the firm. The retained earnings of Johnson & Johnson in 2000 were $18,113.

2.2.4 Statement of Cash Flows

Another extremely important part of the annual and quarterly report is the statement of cash flow. This statement is very helpful in evaluating a firm's use of its funds and in determining how these funds were raised. Statements of cash flow for Johnson & Johnson are shown in Table 2.4. These statements of cash flow are composed of three sections: cash flows from operating activities, cash flows from investing activities, and cash flows from financing

paid to stockholders and expenditures for property, plant, equipment, etc.

Table 2.4. Consolidated statements of cash flow of Johnson & Johnson Corporation and subsidiaries (dollars in millions).

(Dollars in Millions)	2000	2001	2002	2003	2004	2005
Cash flows from operating activities						
Net earnings	$4953	$5668	$6597	$7197	$8509	$10,411
Adjustments to reconcile net earnings to cash flows:						
Depreciation and amortization of property and intangibles	1,592	1,605	1,662	1,869	2,124	2,093
Purchased in-process research and development	66	105	189	918	18	362
Deferred tax provision	−128	−106	−74	−720	−498	−46
Accounts receivable allowances	41	99	−6	6	3	−31
Changes in assets and liabilities, net of effects from acquisitions:						
Increase in accounts receivable	−468	−258	−510	−691	−111	−568
(Increase)/decrease in inventories	128	−167	−109	39	11	−396
(Decrease)/increase in accounts payable and accrued liabilities	41	1401	1420	2192	607	−911
Decrease/(increase) in other current and non-current assets	124	−270	−1429	−746	−395	620
Increase in other current and non-current liabilities	554	787	436	531	863	343
Net cash flows from operating activities	6903	8864	8176	10,595	11,131	11,877
Cash flows from investing activities						
Additions to property, plant and equipment	−1689	−1731	−2099	−2262	−2175	−2632
Proceeds from the disposal of assets	166	163	156	335	237	154
Acquisitions, net of cash acquired	−151	−225	−478	−2812	−580	−987
Purchases of investments	−5676	−8188	−6923	−7590	−11,617	−5660
Sales of investments	4827	5967	7353	8062	12,061	9187
Other (primarily intangibles)	−142	−79	−206	−259	−273	−341
Net cash used by investing activities	−2665	−4093	−2197	−4526	−2347	−279

(*Continued*)

Source: LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

Table 2.4. (*Continued*)

(Dollars in Millions)	2000	2001	2002	2003	2004	2005
Cash flows from financing activities						
Dividends to shareholders	−1724	−2047	−2381	−2746	−3251	−3793
Repurchase of common stock	−973	−2570	−6538	−1183	−1384	−1717
Proceeds from short-term debt	814	338	2359	3062	514	1215
Retirement of short-term debt	−1485	−1109	−560	−4134	−1291	−732
Proceeds from long-term debt	591	14	22	1,023	17	6
Retirement of long-term debt	−35	−391	−245	−196	−395	−196
Proceeds from the exercise of stock options	387	514	390	311	642	696
Net cash used by financing activities	−2425	−5251	−6953	−3863	−5148	−4521
Effect of exchange rate changes on cash and cash equivalents	−47	−40	110	277	190	−225
Increase in cash and cash equivalents	1766	−520	−864	2483	3826	6852
Cash and cash equivalents, beginning of year	2512	4278	3758	2894	5377	9203
Cash and cash equivalents, end of year	$4278	$3758	$2894	$5377	$9203	$16,055
Supplemental cash flow data						
Cash paid during the year for:						
Interest	$215	$185	$141	$206	$222	$151
Income taxes	1651	2090	2006	3146	3880	3429
Supplemental schedule of noncash investing and financing activities						
Treasury stock issued for employee compensation and stock option plans, net of cash proceeds	$754	$971	$946	$905	$802	$818
Conversion of debt	504	815	131	2	105	369
Acquisitions						
Fair value of assets acquired	$241	$1925	$550	$3135	$595	$1128
Fair value of liabilities assumed	−5	−434	−72	−323	−15	−141
Net cash paid for acquisitions	$236	$1491	$478	$2812	$580	$987
Treasury stock issued at fair value	−85	−1266	—	—	—	—
Net cash paid for acquisitions	$151	$225	$478	$2812	$580	$987

Source: LEE, A.C, J. C., LEE and Ch. F. LEE. Financial Analysis, Planning and Forecasting: Theory and Application.1st edition. New York: World Scientific Publishing Company, 2009. 1101 pages. ISBN 9812706089.

The last item of statement of cash flow is cash and cash equivalents which is the first item in the balance sheet. Therefore, this statement reveals some important aspects of the firm's investment, financing, and dividend policies, making it an important tool for financial planning and analysis. The cash flow statement shows how the net increase or decrease in cash has been reflected in the changing composition of current assets and current liabilities. It highlights changes in short-term financial policies. It helps answer question such as: Has the firm been building up its liquidity assets or is it becoming less liquid?

The statement of cash flow can be used to help resolve deference between finance and accounting theory. There is value for the analyst in viewing the statement of cash flow over time, especially in detecting trends that could lead to technical or legal bankruptcy in the future. Collectively, these four statements present a fairly clear picture of the firm's historical and current position.

2.3 The method of financial statement analysis

Financial statement analysts use variety of techniques to evaluate a company's short- and long-term profitability, business trends and performance indicators. Horizontal and vertical analyses show financial statement items in percentage and dollar forms. Ratio analysis is the method that the ratio between two or more variables related to the business is compared. There are many ratios used to analyze financial statements. Liquidity ratios reflect cash availability. Profitability ratios analyze sales and expense trends. Solvency ratios indicate a firm's long-term ability to repay debt. We provide information on the three important methods of financial statement analysis.

2.3.1 Vertical Analysis

Vertical analysis[4] is the proportional analysis of a financial statement, where each line item on a financial statement is listed as a percentage of another item. Typically, this means that every line item on an income statement is stated as a percentage of gross sales, while every line item on a balance sheet is stated as a percentage of total assets.

The most common use of vertical analysis is within a financial statement for a single time period, so that you can see the relative proportions of account balances. Vertical analysis is also useful for timeline analysis, where you can see relative changes in accounts over time. For example, if the cost of goods sold has a history of being 40% of sales, then a new percentage of 48% would be a cause for alarm.

Vertical Analysis of the Income Statement

The most common use of vertical analysis in an income statement is to show the various expense line items as a percentage of sales, though it can also be used to show the percentage of different revenue line items that make up total sales. An example (e.g.: Table 3.1) of vertical analysis for an income statement is shown in the far right column of the following condensed income statement:

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[4]From website http://www.readyratios.com/reference/analysis/horizontal_analysis_of_financial_statements.html

Table 3.1 Income statement

	$ Totals	Percent
Sales	$1,000,000	100%
Cost of goods sold	400.000	40%
Gross margin	600,000	60%
Salaries and wages	250,000	25%
Office rent	50,000	5%
Supplies	10,000	1%
Utilities	20,000	2%
Other expenses	90,000	9%
Total expenses	420,000	42%
Net profit	180,000	18%

Vertical Analysis of the Balance Sheet

The central issue when creating a vertical analysis of a balance sheet is what to use as the denominator in the percentage calculation. The usual denominator is the asset total, but you can also use the total of all liabilities when calculating all liability line item percentages, and the total of all equity accounts when calculating all equity line item percentages. An example (e.g.: Table 3.2) of vertical analysis for a balance sheet is shown in the far right column of the following condensed balance sheet:

Table 3.2 Balance sheet

Part 1

	$ Totals	**Percent**
Cash	$100,000	10%
Accounts receivable	350,000	35%
Inventory	150,000	15%
Total current assets	600,000	60%
Fixed assets	400,000	40%
Total assets	**$1,000,000**	**100%**
Accounts payable	$180,000	18%
Accrued liabilities	70,000	7%
Total current liabilities	250,000	25%
Notes payable	300,000	30%
Total liabilities	550,000	55%
Capital stock	200,000	20%
Retained earnings	250,000	25%

Table3.2 Balance sheet

Part 2

Total equity	450,000	45%
Total liabilities and equity	**$1,000,000**	**100%**

2.3.2 Horizontal Analysis

Horizontal analysis[5] of financial statements involves comparison of a financial ratio, a benchmark, or a line item over a number of accounting periods. This method of analysis is also known as trend analysis. Horizontal analysis allows the assessment of relative changes in different items over time. It also indicates the behavior of revenues, expenses, and other line items of financial statements over the course of time.

Accounting periods can be two or more than two periods. Accounting period can be a month, a quarter or a year. It will depend on the analyst's discretion when choosing an appropriate number of accounting periods. During the investment appraisal, the number of accounting periods for analysis is based on the time horizon under consideration.

Horizontal analysis of financial statements can be performed on any of the item in the income statement, balance sheet and statement of cash flows. For example, this analysis can be performed on revenues, cost of sales, expenses, assets, cash, equity and liabilities. It can also be performed on ratios such as earnings per share (EPS), price earnings ratio, dividend payout, and other similar ratio.

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[5] From website http://www.accountingtools.com/vertical-analysis

Horizontal analysis can be performed in one of the following two different methods i.e. absolute comparison or percentage comparison.

•Absolute Comparison:

One way of performing horizontal analysis is comparing the absolute currency amounts of some items over the period of time. For example, cash in hand at the end of an accounting period can be compared to other accounting periods. This method is helpful in identifying the items which are changing the most.

•Percentage Comparison:

In the second method of horizontal analysis, percentage differences in certain items are compared over a period of time. The absolute currency amounts are converted into the percentages for the purpose of comparison. For example, a change in cash from $5,000 to $5,500 will be reported as 10% increase in cash. It can also be reported as 110%, which means that the cash is 110% of the cash at the end of previous accounting period. This method is useful when comparing performance of two companies of different scale and size.

2.3.3 Ratios analysis

Financial ratios are useful indicators of a firm's performance and financial situation. Most of ratios can be calculated from information provided by financial statements. Financial ratios can be used to analyze trend and to compare with others. Ratio analysis also can predict the future bankruptcy.

2.3.3.1 Classification of ratios

A ratio[6] is a mathematical relation between one quantity and another. Suppose you have 200 apple sand 100 oranges. The ratio of apples to oranges is 200 / 100, which we can more conveniently express as 2:1 or 2. A financial ratio is a comparison between one bit of financial information and another. Consider the ratio of current assets to current liabilities, which we refer to as the current ratio. This ratio is a comparison between assets that can be readily turned into cash, current assets, and the obligations that are due in the near future -- current liabilities. A current ratio of 2:1 or 2 means that we have twice as much in current assets as we need to satisfy obligations due in the near future.

Ratios can be classified according to the way they are constructed and their general characteristics. By construction, ratios can be classified as a coverage ratio, a return ratio, a turnover ratio, or a component percentage:

1. A coverage ratio is a measure of a company's ability to satisfy (meet) particular obligations.
2. A return ratio is a measure of the net benefit, relative to the resources expended.
3. A turnover ratio is a measure of the gross benefit, relative to the resources expended.
4. A component percentage is the ratio of a component of an item to the item.

When we assess a company's operating performance, we want to know if it is applying its assets in an efficient and profitable manner. When we assess a company's financial condition, we want to know if it is able to meet its financial obligations.

There are six aspects of operating performance and financial condition we can evaluate from financial ratios:

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[6] Most ratios From website http://wenku.baidu.com/view/dbff5ad276eeaeaad1f33006.html

1. A liquidity ratio provides information on a company's ability to meet its short−term, immediate obligations.

2. A profitability ratio provides information on the amount of income from each dollar of sales.

3. An activity ratio relates information on a company's ability to manage its resources (that is, its assets) efficiently.

4. A financial leverage ratio provides information on the degree of a company's fixed financing obligations and its ability to satisfy these financing obligations.

5. A shareholder ratio describes the company's financial condition in terms of amounts per share of stock.

6. A return on investment ratio provides information on the amount of profit, relative to the assets employed to produce that profit.

2.3.3.2 Liquidity Ratios

Liquidity reflects the ability of a company to meet its short-term obligations using assets that are most readily converted into cash. Assets that may be converted into cash in a short period of time are referred to as liquid assets; they are listed in financial statements as current assets. Current assets are often referred to as working capital because these assets represent the resources needed for the day-to-day operations of the company's long-term, capital investments. Current assets are used to satisfy short-term obligations, or current liabilities. The amount by which current assets exceed current liabilities is referred to as the net working capital.

The role of the operating cycle

How much liquidity a company needs depends on its operating cycle. The operating cycle is the duration between the time cash is invested in goods and services to the time that investment produces cash. For example, a company that produces and sells goods has an operating cycle comprising four phases:

(1) Purchase raw material and produce goods, investing in inventory;

(2) Sell goods, generating sales, which may or may not be for cash;

(3) Extend credit, creating accounts receivables, and

(4) Collect accounts receivables, generating cash.

The operating cycle is the length of time it takes to convert an investment of cash in inventory back into cash (through collections of sales). The net operating cycle is the length of time it takes to convert an investment of cash in inventory and back into cash considering that some purchases are made on credit.

The number of days a company ties up funds in inventory is determine by:

(1) The total amount of money represented in inventory, and

(2) The average day's cost of goods sold.

The current investment in inventory that is, the money "tied up" in inventory is the ending balance of inventory on the balance sheet. The average day's cost of goods sold is the goods sold on an average day in the year, which can be estimated by dividing the cost of goods sold found on the income statement by the number of days in the year.

We compute the number of days of inventory by calculating the ratio of the amount of inventory on hand (in dollars) to the average day's Cost of Goods Sold (in dollars per day):

$$Number\ of\ days\ inventory = \frac{Inventory}{Average\ day's\ cost\ of\ goods\ sold} = \frac{Inventory}{Cost\ of\ goods\ sold/365} \quad (2.1)$$

We can extend the same logic for calculating the number of days between sales when an account receivable is created to the time it is collected in cash. If the ending balance of receivables at the end of the year is representative of the receivable on any day throughout the year, then it takes, on average, approximately the "number of days credit" to collect the accounts receivable, or the number of days receivables:

$$\textit{Number of days receivables} = \frac{Account\ receivable}{Average\ day's\ sales\ on\ credit} = \frac{Accounts\ receivable}{Sales\ on\ credit/365} \qquad (2.2)$$

What does the operating cycle have to do with liquidity? The longer the operating cycle, the more current assets needed (relative to current liabilities) because it takes longer to convert inventories and receivables into cash. In other words, the longer the operating cycle, the more net working capital required.

We also need to look at the liabilities on the balance sheet to see how long it takes a company to pay its short-term obligations. We can apply the same logic to accounts payable as we did to accounts receivable and inventories. How long does it take a company, on average, to go from creating a payable (buying on credit) to paying for it in cash?

$$\textit{Number of days payables} = \frac{Accounts\ payable}{Average\ day's\ purchases} = \frac{Accounts\ payable}{Purchases/365} \qquad (2.3)$$

First, we need to determine the amount of an average day's purchases on credit. If we assume all purchases are made on credit, then the total purchases for the year would be the Cost of Goods Sold, less any amounts included in this Cost of Goods Sold that are not purchases.

The operating cycle tells us how long it takes to convert an investment in cash back into cash (by way of inventory and accounts receivable):

$$\textit{Operating cycle} = Number\ of\ days\ of\ inventory + Number\ of\ days\ of\ receivables \qquad (2.4)$$

The number of days of purchases tells us how long it takes use to pay on purchases made to create the inventory. If we put these two pieces of information together, we can see how long, on net, we tie up cash. The difference between the operating cycle and the number of days of payables is the net operating cycle:

$$Net\ operating\ cycle = Operating\ cycle - Number\ of\ days\ of\ purchases \tag{2.5}$$

Or, substituting for the operating cycle,

$$Net\ operating\ cycle = Number\ of\ days\ of\ inventory + Number\ of\ days\ of\ receivables - Number\ of\ days\ of\ purchases \tag{2.6}$$

Liquidity ratios provide a measure of a company's ability to generate cash to meet its immediate needs. There are three commonly used liquidity ratios:

The current ratio is the ratio of current assets to current liabilities; indicates a company's ability to satisfy its current liabilities with its current assets:

$$Current\ ratio = \frac{Current\ assets}{Current\ liabilities} \tag{2.7}$$

The quick ratio is the ratio of quick assets (generally current assets less inventory) to current liabilities; indicates a company's ability to satisfy current liabilities with its most liquid assets

$$Quick\ ratio = \frac{Current\ assets - Inventory}{current\ liabilities} \tag{2.8}$$

The net working capital to sales ratio is the ratio of net working capital (current assets minus current liabilities) to sales; indicates a company's liquid assets (after meeting short−term obligations) relative to its need for liquidity (represented by sales).

$$Net\ working\ capital\ to\ sales\ ratio = \frac{Current\ assets - Current\ liabilities}{sales} \tag{2.9}$$

2.3.3.3 Profitability ratio

Profitability ratios (also referred to as profit margin ratios) compare components of income with sales. They give us an idea of what makes up a company's income and are usually expressed as a portion of each dollar of sales. The profit margin ratios we discuss here differ only by the numerator. It's in the numerator that we reflect and thus evaluate performance for different aspects of the business:

The gross profit margin is the ratio of gross income or profit to sales. This ratio indicates how much of every dollar of sales is left after costs of goods sold:

$$Gross\ profit\ margin = \frac{Gross\ income}{Sales} \tag{2.10}$$

The operating profit margin is the ratio of operating profit (a.k.a. EBIT, operating income, income before interest and taxes) to sales. This is a ratio that indicates how much of each dollar of sales is left over after operating expenses:

$$Operating\ profit\ margin = \frac{Operating\ income}{Sales} \tag{2.11}$$

The net profit margin is the ratio of net income (a.k.a. net profit) to sales, and indicates how much of each dollar of sales is left over after all expenses:

$$Net\ profit\ margin = \frac{Net\ income}{Slaes} \tag{2.12}$$

Return ratios are generally calculated as a return on assets or equity. The return on assets ratio measures the profitability of the firm's asset utilization.

$$Return\ on\ assets = \frac{Net\ income}{Total\ assets} \tag{2.13}$$

The return on equity indicates the rate of return earned on the book value of owner's equity.

$$Return\ on\ equity = \frac{Net\ income}{Total\ equity} \tag{2.14}$$

2.3.3.4 Activity ratio

Activity ratios are measures of how well assets are used. Activity ratios which are, for the most part, turnover ratios can be used to evaluate the benefits produced by specific assets, such as inventory or accounts receivable. Or they can be use to evaluate the benefits produced by all a company's assets collectively.

These measures help us gauge how effectively the company is at putting its investment to work. A company will invest in assets e.g., inventory or plant and equipment and then use these assets to generate revenues. The greater the turnover, the more effectively the company is at producing a benefit from its investment in assets.

The most common turnover ratios are the following:

Inventory turnover is the ratio of cost of goods sold to inventory. This ratio indicates how many times inventory is created and sold during the period:

$$Inventory\ turnover = \frac{Cost\ of\ goods\ sold}{Inventory} \tag{2.15}$$

Accounts receivable turnover is the ratio of net credit sales to accounts receivable. This ratio indicates how many times in the period credit sales have been created and collected on:

$$Accounts\ receivable\ turnover = \frac{Sales\ on\ credit}{Receivable} \tag{2.16}$$

Total asset turnover is the ratio of sales to total assets. This ratio indicates the extent that the investment in total assets results in sales.

$$Total\ assets\ turnover = \frac{Sales}{Total\ sales} \tag{2.17}$$

Turnovers and number of days

You may have noticed that there is a relation between the measures of the operating cycle and activity ratios. This is because they use the same information and look at this information from different angles. Consider the number of days inventory and the inventory turnover:

$$\textit{Number of days inventory} = \frac{Inventory}{Average\ day\text{'}s\ cost\ of\ goods\ sold} \tag{2.18}$$

$$\textit{Inventory turnover} = \frac{Cost\ of\ goods\ sold}{Inventory} \tag{2.19}$$

The number of days inventory is how long the inventory stays with the company, whereas the inventory turnover is the number of times that the inventory comes and leaves – the complete cycle-within a period. So if the number of days inventory is 30 days, this means that the turnover within the year is 365 / 30 = 12.167 times. In other words,

$$\textit{Inventor turnover} = \frac{365}{Number\ of\ days\ inventory} = \frac{365}{\frac{Inventory}{Cost\ of\ goods\frac{sold}{365}}} = \frac{Cost\ of\ goods\ sold}{Inventory} \tag{2.20}$$

2.3.3.5 Financial leverage ratio

A company can finance its assets either with equity or debt. Financing through debt involves risk because debt legally obligates the company to pay interest and to repay the principal as promised. Equity financing does not obligate the company to pay anything dividends are paid at the discretion of the board of directors. There is always some risk, which we refer to as business risk, inherent in any operating segment of a business. But how a company chooses to finance its operations the particular mix of debt and equity may add financial risk on top of business risk.

Financial risk is the extent that debt financing is used relative to equity.

Financial leverage ratios are used to assess how much financial risk the company has taken on. There are two types of financial leverage ratios: component percentages and coverage ratios. Component percentages compare a company's debt with either its total capital (debt plus equity) or its equity capital. Coverage ratios reflect a company's ability to satisfy fixed obligations, such as interest, principal repayment, or lease payments.

Component-percentage financial leverage ratios

The component-percentage financial leverage ratios convey how reliant a company is on debt financing. These ratios compare the amount of debt to either the total capital of the company or to the equity capital.

The total debt to assets ratio indicates the proportion of assets that are financed with debt (both short−term and long−term debt):

$$Total\,debt\ to\ assets\ ratio = \frac{Total\ debt}{Total\ assets} \tag{2.21}$$

Remember from your study of accounting that total assets are equal to the sum of total debt and equity. This is the familiar accounting identity:

$$Assets = Liabilities + Equity \tag{2.22}$$

The long−term debt to assets ratio indicates the proportion of the company's assets that are financed with long−term debt.

$$Long\ -\ term\ debt\ to\ assets\ ratio = \frac{Long-term\ debt}{Total\ assets} \tag{2.23}$$

The debt to equity ratio (a.k.a. debt-equity ratio) indicates the relative uses of debt and equity as sources of capital to finance the company's assets, evaluated using book values of the capital sources:

$$Total\,debt\ to\ equity\ ratio = \frac{Total\ debt}{Total\ sharehold's\ equity} \tag{2.24}$$

Coverage financial leverage ratios

In addition to the leverage ratios that use information about how debt is related to either assets or equity, there are a number of financial leverage ratios that capture the ability of the company to satisfy its debt obligations. There are many ratios that accomplish this, but the two most common ratios are the times interest coverage ratio and the fixed charge coverage ratio.

The times-interest-coverage ratio, also referred to as the interest coverage ratio, compares the earnings available to meet the interest obligation with the interest obligation:

$$\textit{Times - interest - coverage ratio} = \frac{\textit{Earning before interest and taxes}}{\textit{Interest}} \qquad (2.25)$$

The fixed charge coverage ratio expands on the obligations covered and can be specified to include any fixed charges, such as lease payments and preferred dividends. For example, to gauge a company's ability to cover its interest and lease payments, you could use the following ratio:

$$\textit{Fixed charge coverage ratio} = \frac{\textit{Earnings before interest and taxes} + \textit{lease payment}}{\textit{Interest} + \textit{lease payment}} \qquad (2.26)$$

Coverage ratios are often used in debt covenants to help protect the creditors.

Chapter3 Financial characterization of China Unicom

Describe the background of China's telecommunications industry, the history of company, introduction of company and the financial position of company, including basic information about the financial statements of the company and the future of the company.

Before 1980, the basic system of China's telecommunications industry is monopoly of the operation by government. However, due to the national telephone tariff implementation of strict control of the telecommunications industry, the telecommunications industry has non-profit or even losses, infrastructure and services in shortage of the telecommunications industry has become one of the bottlenecks of economic growth.

The government began to implement the telecommunications management system and reduce price controls, and the dual leadership of the central and local implementation of the telecommunications industry. After the reform and opening up, the pace of development of China's telecom industry called the world's greatest. Remember the early 1980s, it is difficult to have a call, people can hold the phone to speak in anytime now, this change is almost unbelievable. But China's telecom industry still has very weak foundation.

According to data statistics, in 1995, the average annual growth of China's telecommunications industry is more than 30 percent, have made outstanding contributions to national economic development. The fast pace of development can not cover up their contradictions, in this process, the administrative monopolies in the telecommunications industry system has become an increasingly prominent, public is not satisfied with the high-priced but low-quality telecommunications services, they need a powerful strength to break the monopoly in China's telecommunications industry and the introduction of competition mechanism.

China Unicom was established, marking China's telecom industry a monopoly was broken, and marking China's telecom industry reform officially began. In July 2000, China Unicom Internet business opened, it became the first entire service operator in China. We can say that China Unicom has been in the forefront of China's telecom industry reform in past 10 years.

3.1 History of China Unicom

China United Network Communications Group [7] Co., Ltd. (Briefly named "China Unicom") was established on January 6, 2009 on the basis of the former China Unicom and China Netcom, which used to play the important roles on china's telecom market with their own advantages in different professional areas respectively. Such advantages will lend to the newly-built China Unicom an internal momentum for further growth.

The former China Unicom was incorporated on July 19, 1994 under the approval of the State Council as a result of a significant move by the CPC Central Committee and the State Council to deepen system reform and break the monopoly in the domestic telecom industry. Starting from scratch and going through the decades of struggle, former China Unicom has been constructing a nationwide mobile communications network and a leading-edge unified multi-service network platform, which provide mobile communications services, IP long-distance call service as well as data communications and the Internet services to take the subscribers into a new era of mobile commerce and mobile entertainment.

As the only domestic basic telecom operator going public with its core businesses on HKSE, NYSE and the A-share market, the former China Unicom had basically put in place a

[7] From website http://www.chinaunicom.com.cn/

modern corporate system in compliance with the international practice. (China Netcom used to be a Supers-Scale Enterprise in the domestic telecom industry and the official partner of the 2008 Beijing Olympic Games for fixed communications services as well as a renowned telecom operator around the world. China Netcom listed on HKSE and NYSE.

The former of China Netcom is centenarian telecom operator. China Netcom owned well-structured, technically advanced and functionally powerful modern communications network with nationwide coverage and global reach. Its key businesses included domestic and international fixed telephony networks and facilities (including Wireless Local Loops); fixed voice, data, image and multimedia communications and information services; system integration service related to communications and information services.

The overall scale and strength of the newly-built China Unicom was greatly enhanced. Relying on its well-structured, technically advanced and functionally powerful modern communications network with nationwide coverage and global reach, the company offers a wide array of services, including mobile communications services, domestic and international fixed telephony networks and facilities (including Wireless Local Loops); voice, data, image and multimedia communications and information services, value-added telecom services, IP telephony service, system integration service related to communications and information services as well as other services approved by the government.

In the future, China Unicom will strive to seize the new opportunities out of the innovation and transformation on the global telecom front and China's efforts to facilitate the mutual promotion of industrialization and informatization, rely on the strong support of its millions of subscribers, leverage the advantages out of the merger and fully mobilize the enthusiasm and creativity of its staff, strengthen innovation in terms of technologies, services, applications and products, promote fixed mobile convergence and wireless broadband communications by highlighting full-service operation, 3G expansion and customer focus, and improve the corporate overall strength and core competitiveness on a continuous basis to meet the customers' demands for integrated information services, with a view to transforming China Unicom into a world-leading broadband communications and information service provider.

3.2 Corporation profile

China United Network Communications Group [8] Co.,Ltd ("China Unicom") was officially established on 6 January 2009 on the basis of the merger of former China Netcom and former China Unicom. It has subsidiaries in 31 provinces (autonomous regions and municipalities) across China and many countries and regions around the world. It is the only Chinese telecom operator listed on the stock exchanges in New York, Hong Kong and Shanghai. As of the end of 2008, the total assets of the Company reached 500.09 billion Yuan and the number of employees stood at 463,000.

With a modern communications network characterized by nationwide coverage and global reach, China Unicom mainly operates fixed and mobile communications service, domestic and international communications facilities, satellite IPLC service, data communications service, network access service, value-added telecom services and system integration service related to information and communications services. On 7 January 2009, China Unicom was granted a WCDMA license.

By the end of 2008, China Unicom had 273 million subscribers, among which the

[8] From website http://www.chinaunicom.com.cn/

broadband subscribers totaled 30.16 million, GSM subscribers 133 million and fixed-line (including PHS) subscribers 109 million. China Unicom was among the Top 500 in the world in terms of its revenue, and ranked in the top of the world leading telecom operators in terms of its customer base and market capitalization of its listed company.

Aiming at providing comprehensive and high-quality broadband communications and information services for customers, China Unicom has been speeding up the construction of mobile communications network, strengthening the development of fixed broadband network, and promoting broadband-based fixed and mobile networks.

Committed to raising its overall competitiveness and sustainable development capacity and becoming a world leading provider of broadband communications and information services, China Unicom will further enhance the development of its services, expand its business scope and improve the quality of service while adhering to the market-oriented and customer-focused principle and emphasizing the development of mobile broadband Internet services.

3.3 Major domestic and international Awards in 2008

February 2008

In the 2008 annual telecom service meeting held by the former MII in February, six branch companies of the former China Netcom[9] and the former China Unicom won the titles of Outstanding Telecom Operators in the "2007 Trustworthy Service for Safe Consumption" campaign; four branch companies were named as Star Enterprises in the category of customer satisfaction; 26 teams were named as Star Teams and 56 people were named as Star

[9] From website http://www.chinaunicom.com.cn/

Employees.

March 2008

In March, the former China Netcom was ranked No.1 in the customer satisfaction survey for fixed telephony and broadband access services amid the 2007 telecom customer satisfaction survey organized by the former MII and China Consumer Association. In March, the "Broadband Business" brand of the former China Netcom entered the 5th Top 10 Influential Brands for ICT Application within Chinese SMEs.

April 2008

In April, the former China Unicom was elected as the Outstanding Enterprise under the Central Government in the Snow Disaster Relief in 2008. Nine branch companies of the former China Unicom and China Netcom were awarded Outstanding Organizations in the Snow Disaster Relief. Twelve individuals were awarded Outstanding Staff in the Snow Disaster Relief. Two units were awarded Outstanding Grass-root Party Organizations in the Snow Disaster Relief. Two individuals were awarded Excellent Party Members in the Snow Disaster Relief.

May 2008

In May, the former China Unicom and the former China Netcom won the title of 2005-2007 Outstanding Organization in the National Internal Audit Work issued by the Internal Audit Association of China.

October 2008

In October, the Leading Group of the "Olympic Science and Technology (2008) Action Plan" and the 29th Olympiad Committee on Science and Technology awarded 101 outstanding organizations for their contribution in the High-tech Olympics. Four project teams of the former China Netcom won the award.

December 2008

In December, the former China Unicom won 3 first prizes in the business management modernization and innovation of the national telecom industry as well as 8 second prizes, 14 third prizes and excellent organization award. 18 enterprises won the customer satisfaction awards. 57 teams won awards of excellence in quality management and 3 organizations were recognized for their creditable performance in launching the quality management campaign.

3.4 Major Events

February 18, 2008

On February 18, the former China Unicom joined CCF (the global CDMA Certification Forum) and gained a seat on the CCF Board of Directors.

On July 28

In an update on the selling of its CDMA business, the former China Unicom announced its upcoming agreement with China Telecom on the selling of its CDMA business.

December 3, 2008

On December 3, China Unicom became the official partner of the 11th National Games for fixed communications services.

January 6, 2009

On January 6, the SASAC approved the merger between China Unicom and China Netcom in its "Reply to Issues Regarding the Merger between China Netcom and China Unicom"(State Asset Reform [2009] No.1). After the merger, the new company will use the name of "China United Network Communications Group Co., Ltd." ("China Unicom" for short). China Unicom will inherit all the assets, claims, liabilities and businesses of the former China Unicom and the former China Netcom. The former China Netcom will be absolved in accordance with the law.

January 7, 2009

China Unicom was awarded a WCDMA license to run 3G mobile communications services.

March 29, 2009

On March 29, China Unicom was ranked among top 10 of the CECA-initiated "2008 Top 500 Chinese Enterprises in Leading IT Applications", and won the "Award for Best Innovative Management" and the "Award for Best Human Resources Management".

May 17, 2009

On May 17, China Unicom officially launched its 3G commercial test in 55 cities. On the same day, online 3G customer service was launched via China Unicom's Online Business Hall to handle customer inquiries with regard to 3G products, tariff packages, network coverage, value-added services and international roaming. New features were provided to the "186 Experience" users, such as balance inquiry, account recharge and service application, etc.

August, 2009

On August 5, China Unicom (Singapore) Operations Limited was incorporated.

September, 2010

In September, China Unicom completed for the first time at the GSMA Global test. Mobile terminals participating in the test by China Unicom's 3G (WCDMA) network access, the PC client through broadband Internet access to simulate the multi-terminal real interoperability scene-based mobile terminals and fixed terminals, enhanced address book, presence, content sharing and instant messaging and other functions to be tested to verify the interoperability between terminals and net works. Early this year, China Unicom joined the GSMA (GSM Industry Alliance) RCS (Rich Communication Suite, rich communications suite) Working Group, which is the second time this year the global the GSMA RCS the IOT (Inter Operability the Test Interoperability Test) Test, but also China Unicom contractors the first the GSMA industrial activities.

December, 2010

In December, China Unicom, the first of world and only a telecommunications operator to provide international roaming services in Myanmar. China Unicom signed international roaming service agreement with Myanmar Post and Telecommunications (MPT), the opening of the GSM network voice and SMS international roaming services. At the end of the year, China Unicom has opened GPRS international roaming with 333 operators in 170 countries and regions visiting business and opened GPRS international roaming with 294 operators in 155 countries and regions to visit the business.

3.5 Basic information about financial position of company

In 2007, the company focused on improving quality of development, the business has sustained and effective development in this year. Operating revenue maintained steady growth; and reached 1,004.7 billion Yuan, an increased 5.4 percent over the previous year. Profitability was further enhanced throughout the year; a total profit is 13.16 billion Yuan, an increased 118.0% over the previous year, net profit was 9,319 million Yuan, growth of 176.4% over the previous year. In 2007, the company's debt structure was more stable. Debt to assets ratio of the previous year was from 46.8% to 35.7% at the end of 2007. Deducted capital spending

25.72 billion Yuan throughout the year, cash flow was 6,676 million Yuan.

The company's balance sheet structure was more stable in 2007. As of the end of 2007, total assets was from 419.5 billion Yuan the end of 2006 to 1,445.1 billion, total liabilities fell to 51.57 billion Yuan from 66.37 billion Yuan at the end of 2006, debt to assets ratio was 46.8% in the end of 2006 dropped further to 35.7%.

End of 2007, the company had net current liabilities (current liabilities - liquid assets) was 32.58 billion Yuan, an increased 1.4 billion Yuan from 31.18 billion Yuan at the end of 2006, taking into account the company from operating activities net cash inflow from more abundant, we believe the company has sufficient working capital required to meet business.

In 2008, on the one hand, the company actively and steadily promoted the reform and reorganization; on the other hand, focused on their efforts on the production and management, improving quality of development, business development remained stable overall. Ordinary shares in shareholders' net profit of 19.74 billion Yuan, rise by 109.4 percent over the previous year, earnings per share were 0.931 Yuan, an increase of 109.4% over the previous year. Operating income was 159,792 million Yuan, increased 59 percent over the previous year from continuing operations and achieved net profit of 33,727 million Yuan.

In 2008, the company's capital structure more stable, the debt to assets ratio of the previous year from 46.1% to 39.8%.The company's net cash flows from operating activities was 59.43 billion Yuan, taking into account the cash inflow from the sale of CDMA business, the company's financial position was very steady.

The company's balance sheet structure was more stable in 2008. As of the end of 2008, total assets were 145,017 million Yuan increased to the 347,037 million Yuan in 2007.

As of the end of 2008, the company had net current liabilities (current liabilities - liquid assets) to 88.88 billion Yuan, less 2.49 billion Yuan than in 2007.

2009 was the first year of full operation after the reorganization of the company to accelerate 3G network construction and operation, and actively carried out the business to effectively promoted enterprise-depth integration, business development was generally stable.

The company's operating income reached 153,945 million Yuan in 2009, net profit was 9,373 million Yuan, and basic earnings per share were 0.148 Yuan. Communications services revenue was 10,499.0 billion Yuan, it down 1.1 percent than the previous year. Debt to assets ratio of the company in 2009 rose to 50.2%. Net cash flows from operating activities was 59.31 billion Yuan, and capital expenditure due to the 3G network construction was substantially increased to 112.47 billion Yuan, the free cash flow (operating cash flow - capital expenditure) was -531.6 billion Yuan.

The increased in 3G network construction capital expenditure as at the end of 2009, the company's total assets increased to 419,232 million Yuan from 347,037 million Yuan in 2008. The total debt by the end of 2008 was 138,040 million Yuan to 210.39 billion Yuan.

As of the end of 2009, the company had net current liabilities (current liabilities - current assets) is 1,688.9 billion Yuan, more 79.31 billion Yuan than 2008, mainly due to increase in short-term borrowings and accounts payable. Taking into account the company's operations to net cash inflow to maintain stability and good credit, we believe the company should have sufficient working capital to meet the production and management needs.

3G and broadband business of the company achieve rapid development in 2010, the GSM business steadily and fixed-line business to keep steady and rapid growth of the cash flow from operations, capital spending fell, and the balance sheet remained strong.

The company's operating income in 2010 reached 1,761.7 billion Yuan, 11.3 percent increased than last year, net profit was 3.67 billion Yuan, it down 60.8 percent than last year, basic earnings per share were 0.058 Yuan.

In 2010, the company's operating activities net cash flows was 68.21 billion Yuan, increase 15.0 percent over the previous year, capital expenditure was 70.19 billion Yuan, it down 31.4 percent from the previous year, free cash flow (operating cash flow - capital expenditure) from last year's -531.6 billion Yuan to improve to -19.8 million Yuan. As of the end of 2010, the end of the company's debt-assets ratio was 50.2% changed to 53.1%.

As of the end of 2010, the company had net current liabilities (current liabilities - liquid assets) was 1,556.0 billion Yuan, a decrease of 13.29 billion Yuan, 1,688.9 million Yuan from last year. Taking into account, the company's operations to net cash inflow to maintained stability and good credit; we believe the company should have sufficient working capital to meet the production and management needs.

Information and communication technology industry is undergoing a major innovation and change, cross-border integration of the industry, as well as the rapid development of mobile Internet to generate many new business opportunities with great potential for development. The company will firmly seize the valuable strategic opportunity to deepen the implementation of the "3G leadership and integration of innovative strategies" to raise the overall efforts to achieve new breakthroughs and overall strength of the scale of development, speed up the" information life leader of innovative services". 2011, the company's main business measures and targets include:

Ensure that the development of 3G, broadband and other key business scale breakthrough, overall revenue to achieve faster growth, profitability has been gradually improved. The company will further optimize the product structure, strengthen the terminal power, play the advantages of integration, to achieve the breakthrough development of 3G services income and users; do fine marketing of GSM services to ensure the smooth development of the GSM service; to maintain the rapid growth of fixed-line broadband services, solid network business structure continues to improve. Actively promote the integration and development of mobile, fixed line, facing the industry, households and individuals to provide a more rich and diverse information services to meet our customers a full of information service needs, to realize the scale of development and new breakthroughs in the integration of business and focus on industry applications.

3.6 Future outlook

As a world-class Chinese telecom operator, China Unicom [10]is transforming itself into a "leading broadband and information service provider" globally. With the evolution of Information Technology, opening up of the telecom market and accelerated convergence of different industries, China Unicom will make best use of its recent merger to speed up integrated operation, reform and innovation. In the meantime, the company will actively undertake its social responsibility and try to realize coordinated and sustainable development along with other stakeholders.

With regard to the fulfillment of its economic responsibilities, China Unicom will focus on full-service operation and wireless broadband Internet, and accelerate network deployment and innovation capacity in an effort to create value for its customers and returns for its shareholders. The company will also improve its corporate governance, build up a system of punishment and prevention, strengthen monitoring on performance evaluation, and safeguard

[10] From website http://www.chinaunicom.com.cn/

the legitimate rights of its employees so as to promote sustainable development of the company.

With regard to the fulfillment of its social responsibilities, China Unicom will make further efforts to improve its quality of service especially after the acquisition of a mobile license, actively participate in the Connect the Villages Project to share the fruits of Information Technology with the whole society, and organize nationwide campaigns for the public good in a bid to help support disadvantaged groups, education and community service.

With regard to the fulfillment of environmental responsibilities, China Unicom will give priority to harmony between business development and natural environment, stick to saving energy and reducing emissions, promote ICT application internally and externally, strengthen waste management to increase recycling of resources, implement strict electro-magnetic radiation standards and enhance in-depth cooperation between upstream and downstream links on the industry chain so as to create a sound eco-system jointly.

The newly-restructured China Unicom is entering into a brand new stage of development. The company will try to increase its core competitiveness through increased input/output ratio. Meanwhile, company will constantly enhance its awareness about corporate citizenship and make the fulfillment of social responsibility part of the daily operation of the company so as to create harmony between man and nature as well as between business development and environmental protection.

Chapter4 Financial analysis of China Unicom

We will use variety of method to analyze financial statement of China Unicom from 2006 to 2010.it including balance sheet, income statement and cash flow.

4.1 Total asset

Assets are any item of economic value owned by an individual or corporation. Especially that could be converted to cash. Assets can be physical, such as real estate or stocks, a claim on debts, such as accounts receivable, or a right, such as a patent.

Table 4.1 Assets of Balance sheet of China Unicom (RMB in millions)

Balance Sheet - Annual Results	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Fixed Assets	366,060	351,157	285,469	127,673	121,248
Investments	6,214	7,977	95	0	0
Current Assets	42,292	30,722	36,160	16,836	20,704
Other Assets	26,971	27,298	25,055	5,083	4,580
Total Assets	441,453	417,045	348,752	144,509	141,952

According the chart (e.g.: Table 4.1), we can see that total assets and fixed assets were changed very smoothly from 2006 to 2007, but it rose to 3487.5million suddenly in 2008.

Table 4.2 Line graph about Assets changes

Because China Unicom has 31 branches were listed in 2008, including some branches of China Netcom. Obviously, China Unicom is a large company which covering a wide range of area, the level of management will impact on its profit.

4.1.1 Analysis of Assets changes

From the number of corporate assets (e.g.: Table 4.2), current assets and fixed assets have increased. Fixed assets increased faster than current assets. Total assets have increased. Enterprise adjusted assets structure.

Table 4.3 Net profit of Profit loss statement of China Unicom (RMB in millions)

Profit Loss - Annual Results	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Net Profit	3,851	9,556	35,398	9,319	3,801

China Unicom (Singapore) operations limited company was registered in 2009. So even though the net profit was increased from 2006 to 2008, the net profit was decreased in 2009 and it’s similar with the net profit in 2007. The new assets were not able to bring new profit.

4.1.2 Analysis of liability

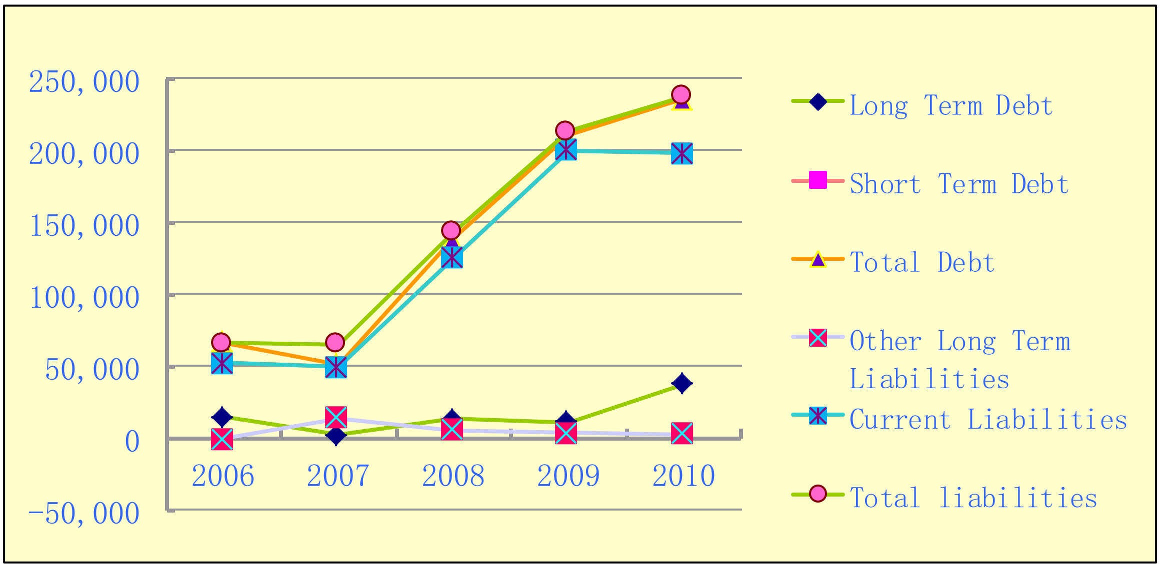
Liability is an obligation to pay an amount in money, goods, or services to another party. Total assets of China Unicom are growing year by year. The main reason is shareholder's equity increased, due to the company issued new shares.

Table 4.4 Liabilities of Balance sheet of China Unicom (RMB in millions)

Balance Sheet - Annual Results	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Current Liabilities	197,894	199,612	125,038	49,418	51,889
Total liabilities	235,269	210,365	138,130	80,943	65,775
Share Capital	2,310	2,310	2,329	1,437	1,344
Equity	205,841	206,465	207,725	178,512	79,409

In addition, current liability increased a lot, mainly due to the increase in account receivable, and the growth rate is greater than turnover.

Table 4.5 Line graph of Liabilities change



From this chart (e.g.: Table 4.5), we can see liabilities increased from 2006 to 2007 as well as 2009 to 2010. But it decreased in 2008 suddenly. Because the company sold one technology of mobile phone, named CDMA (Code Division Multiple Access) to China telecom, and then China Unicom earned much more money in 2008. The profit increased a lot in that year. The total assets increased a lot. The liabilities were lower.

4.2. Financial ratio analysis

Calculate selected ratios, deep analysis of the results. Ratio analysis is the method that the ratio between two or more variables related to the business is compared.

4.2.1 Short-term solvency

Short-term solvency ratios attempt to measure the ability of a firm to meet its short-term financial obligations. In other words, these ratios seek to determine the ability of a firm to avoid financial distress in the short-run. The two most important short-term solvency ratios are the current ratio and the quick ratio.

Table 4.6 Short-term solvency ratios of China Unicom (RMB in millions)

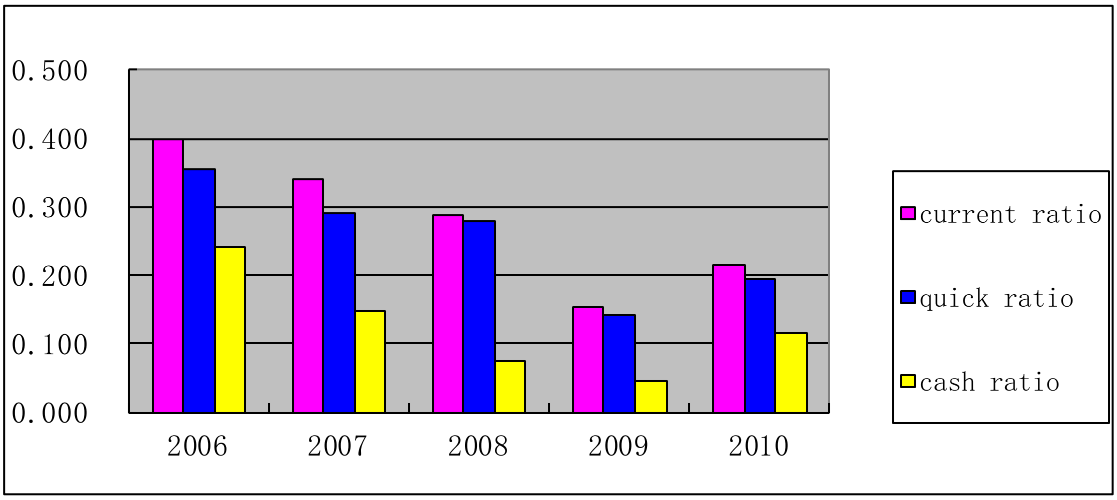
	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Current ratio	0.214	0.154	0.289	0.341	0.399
Quick ratio	0.195	0.142	0.280	0.290	0.354
Cash ratio	0.115	0.044	0.076	0.148	0.240

(1) Current ratio

In generally, the higher current ratio, the stronger short term solvency of company. From a point of view of creditor, the higher current ratio, current assets over current liability is more. The quick ratio of China Unicom was declining from 2006 to 2009. However, to China

Unicom, when the customers use communication service, the company will have accounts receivable, but account payable has a big percent in current. Due to the growth of current assets was slower than current liability, so deterioration of the current ratio was happened.

Table 4.7 Bar chart about Short-term solvency ratios change



(2) Quick ratio

Quick ratio, which we can assume that quick asset, is an asset, which can pay a debt. It is means that if we product 1 dollar things, how much quick assets from current liability will repay. Quick ratio of company always decreased smooth and steady, but it has a big changed from 2008 to 2009, the data decreased from 0.28 to 0.14. It is means that the number of quick assets was declining year by year. One year later. The ratio increased from 0.14 to 0.20, the liquidity of company was stronger than before. It owe to assets structure improvement, reducing the financial risk.

(3) Cash ratio

We can see that if we product 1 dollar, how much cash from current liability will repay. It reflects a company has an ability to pay for the money in any time. In generally, the ratio should be 20%. But, the cash ratio of China Unicom was around 10% from 2007 to 2010. The ratio was too low, because the company raised too much money through the liability way. It was difficult to pay the debts at sight.

From these ratios, short term liquidity of company decreased before 2009. It can tell us the liquidity of company was very bad before 2009. The company needs to improve and manage better. But the ratio was higher in 2010. The company use right way to manage company. So the 2010 is turning point of china Unicom.

4.2.2 Long term solvency

Long-term solvency ratios provide information about a company's financial leverage. They also measure a company's ability to pay long-term obligations those with maturities exceeding one year.

Table 4.8 Long term solvency analysis of China Unicom (RMB in millions)

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Debt-assets ratio	0.531	0.502	0.398	0.356	0.468
Debt-equity ratio	1.130	1.007	0.660	0.555	0.878
Interest coverage ratio	3.861	12.919	3.451	-61.643	6.053
Debt to tangible assets ratio	1.248	1.112	0.725	0.601	0.949

(1) Debt-assets ratio

The ratio reflects (e.g.: Table 4.8) how many proportions of assets we can get from debt. Debt-assets ratio was lower and company has more ability to pay the debt and easier to borrow money from others. If the ratio is high enough to more than 70%, no one is willing to provide loans, it means that corporate has been lost their ability to borrow; we should strengthen control of financial risk. Generally, we believed that the level of debt-assets ratio around 40% - 60% is very well, but China Unicom, debt-assets ratio was lower than 40% in 2007 and 2008. If we combined with high profitability and the increased in the total assets, we can see China Unicom shareholders wealth was growing in these years, the company's management has made good results in increasing shareholder wealth. China Unicom's long-term solvency can be guaranteed. Until 2009 and 2010, the debt increased but the ratio at a normal level.

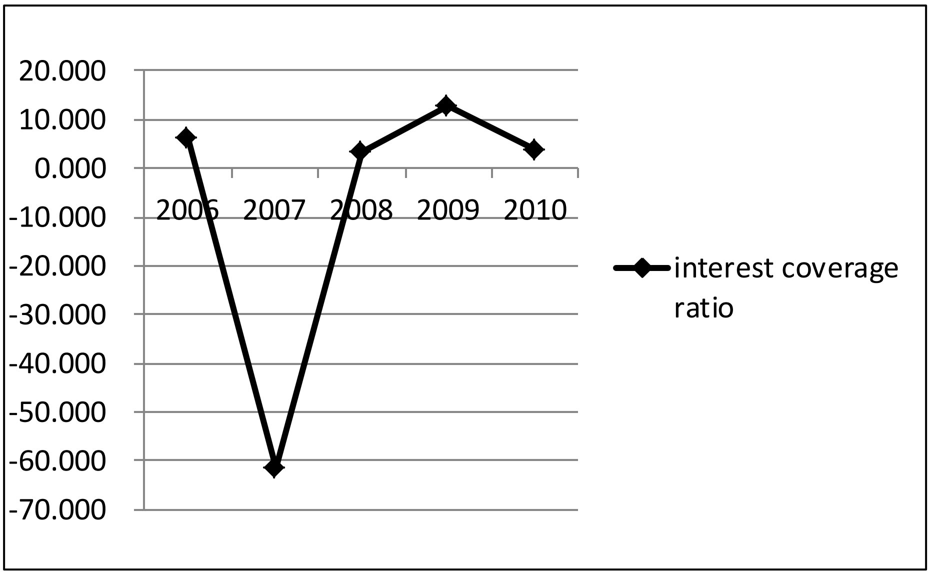
(2) Equity ratio

The equity ratio reflects a situation about shareholder’s equity. The higher the equity ratio, indicating that the weaker the ability to repay long-term debt; equity ratio is lower, the stronger the ability to repay long-term debt. Debt-assets ratio is between 40-60%, means that the equity ratio should be maintained between 0.7 and 1.5. We can be seen from the chart, China Unicom's equity ratio declining, each owner's equity to bear the debt in reducing that long-term solvency was enhanced.

(3) Debt to tangible assets ratio

Debt-tangible assets ratio reflects the how much of shareholder’s ability to guarantee of the capital invested by creditor when the company clear or go bankrupt. The ratio decreased, indicating that enhanced the level of protection of creditors, the risk of company decreased and long-term solvency is enhanced. There are three factors led to reduce the ratio. First, the net asset increased, due to the annual large profit every year, the second is goodwill, amortization of intangible assets and deferred tax. Third, the proportion of debt decline.

Table 4.9 Line graph of Interest coverage ratio changes

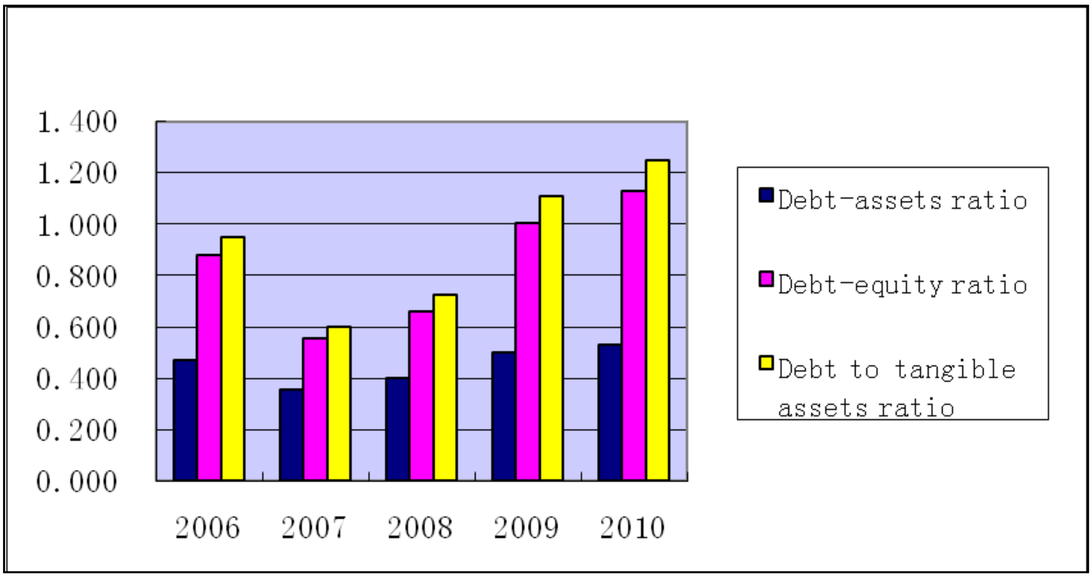


(4) Interest coverage ratio

The interest coverage ratio is a measure of corporate ability to pay interest, if it has not large EBIT, interest payments will be difficult. To maintain normal solvency, interest coverage ratio should be greater than 1 at least, and the higher the ratio, and the stronger long-term solvency. If interest coverage ratio is too low, companies will face the risk of losses, debt service, security and stability. The data (e.g.: Table 4.9) tell us that an increasing state of the ratio and company debt management can earn higher profits than the cost of capital, but the company can only keep their operation. Enhanced the ability to pay interest on the company, the level of protection to pay maturing debt is will be higher. The interest coverage ratio was -61.38 in 2007, the company's interest costs was -214,322,732. Because interest received was much more than interest paid in 2007.

And the company will receive the interest from bank. So the solvency of China Unicom is great. Interest coverage ratio was 3.45 in 2008, the company's income was just over the interest expense but company also should strive to earn the higher profits, which means that the company generated operating income just to support the existing debt situation; the debt risk was not great. But a sudden dropped in 2010, indicating that the repayment liability of company was very unstable and has a great fluctuation.

Table 4.10 Bar chart of Long term solvency



China Unicom's financing policy to rely on debt, first, because of the relatively low profitability by China Unicom, equity growth slow, second, because the company's stock price is relatively low, the issue of new shares will not only increase the cost of capital, but also decentralized control of the company. In addition, China Unicom can also be maintained to meet the demand for investment funds through debt financing, but, must pay attention to control of financial risks.

4.2.3 Profitability Analysis

Profitability ratios reflect a company's overall efficiency and performance. We can divide profitability ratios into two types: margins and returns. Ratios that show margins represent the firm's ability to translate sales into profits at various stages of measurement. Ratios that show returns represent the firm's ability to measure the overall efficiency of the firm in generating returns for its shareholders.

Table 4.11 Profitability analysis of China Unicom

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Gross profit margin ratio	0.298	0.333	0.370	0.388	0.388
Operating profit margin	0.026	0.077	0.049	0.131	0.062

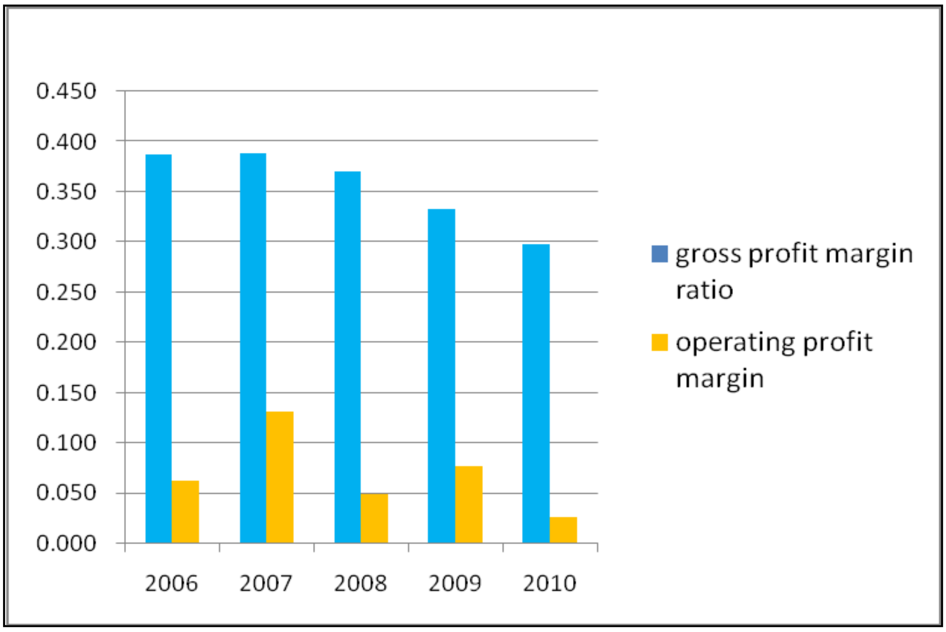
(1) Gross profit margin ratio

Gross profit margin ratio is the initial basis for net profit margin, if company haven't large enough gross profit margin will not be able to form a profit. Gross profit margin ratio mainly on the strength of the company's products competes in the market. It can be seen from the chart (e.g.: Table 4.11), China Unicom, gross profit margin ratio grew year after year from 2005 to 2007, its competitiveness in the market was more stable and increased greatly. But gross profit margin declined year by year from 2008 to 2010, its competitiveness in the market was not very stable, and there was no increasing trend.

(2) Operating profit margin ratio

The operating profit margin is a measure of the company's operational efficiency, which reflects the ability to don't consider the non-operating costs, the operating profit from the company managers operation. Operating profit margin is higher, it mean the sales volume will has more operating profit, and operation capacity will be stronger. China Unicom's operating margin was relatively stable, and has fluctuated around 10%. Operating profit of China Unicom was unstable from sales; the profitability of the business can be shaky and unstable easily.

Table 4.12 Bar chart of Profitability analysis



Profitability is the ability of enterprises to get profit. Profit is an income that investor wish to get from their investment. The creditor to collect principal and interest is an important parameter to measure the capability of development. But China Unicom Limited wishes to have made great progress, we must improve profitability.

4.2.4 Return on assets analysis

Return on assets is a profitability ratio that proves a company's ability to generate a return for all of its investors, whether they provided debt or equity financing.

Table 4.13 Return on assets analysis of China Unicom

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Return on assets ratio	0.011	0.03	0.04	0.09	0.05
Return on current assets ratio	0.104	0.34	0.2	0.55	0.34
Return on fix assets ratio	0.01	0.04	0.03	0.11	0.06

(1) Return on assets ratio

Return on total assets is a very useful analysis of corporate profitability ratios. It is another evaluation of corporate earning power. Return on total assets not only can direct reflection of the level of the company's competitive strength and growth, but also determine whether the company should borrow for operating. The higher rate of return on total assets, indicating that the higher the efficiency of asset utilization, and revenue, save money and use to obtain good results; the lower the ratio, indicating the low efficiency of enterprise asset utilization, we should analyze the different reasons, to improve sales profit margins, rapid capital turnover, improve enterprise management level.

Return on assets ratios of China Unicom was 5% in 2006 and then grew to 9% in 2007, compared to 2008 and 2009 years has dropped to 3% and 4%, but the ratio has dropped to 1%, reflecting the whole enterprise management level was relatively stable, while the level of enterprise input-output was not very well. Operational efficiency of all the assets in the company is low.

(2) Return on current assets

Return on current assets ratio reflects the effect of the use of economic current assets. More profit to achieve in each unit of current assets, indicating that the current assets of enterprise is better; otherwise, it will be worse. The return on current assets ratio reflects the actual profitability from the company's current assets.

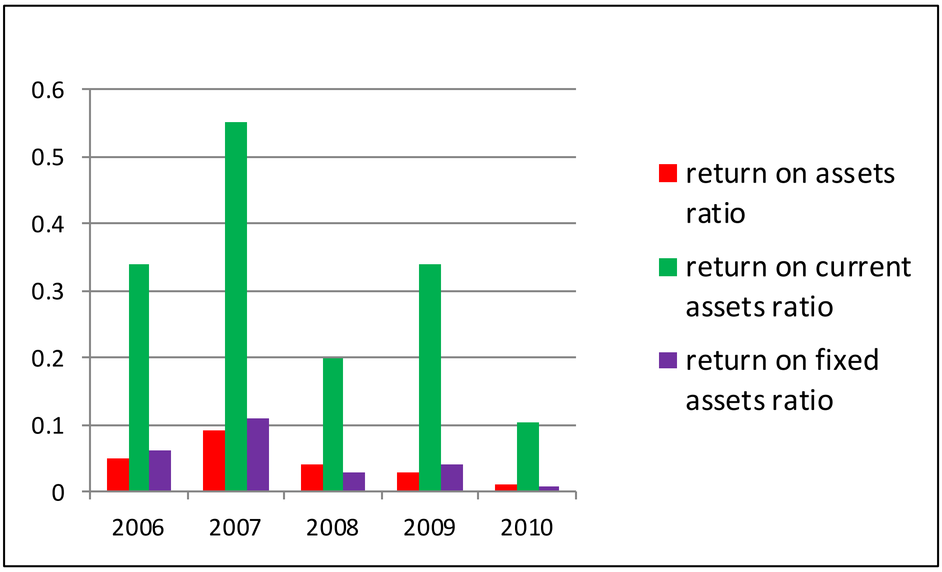
The ratio of China Unicom was around 30%-40% in 2005, 2006 and 2009. The ratio has increased 0.21 from 2006 to 2007, the actual profitability of the current assets enhanced in 2007, but the ratio reduced 0.35 from 2007 to 2008, and return on current assets ratio was 0.34. The ratio grew 0.14 in 2010, indicating the profitability of current assets increased from

2009.

(3) Return on fixed assets ratio

The profit is an operating result or output efficiency of comprehensive management. This ratio reflects the effect of fixed assets utilized in the company. The ratio is not only the impact of production, but also due to sales, cost of sales, sales prices and other factors. Enterprises increase profits, on the one hand to minimize the occupation of fixed assets; the other hand, increased production, improved quality, reduced costs, good sales.

Table 4.14 Bar chart of Return on assets change



Through the analysis of this ratio can be an overall improvement in management. Return on fixed assets ratio became declining trend, indicating that the profitability capacity of company fixed assets was declining.

4.2.5 Return on Capital analysis

Return on capital is a measure of management efficiency. Return on capital is considered a more appropriate variable to assess firms' management efficiency.

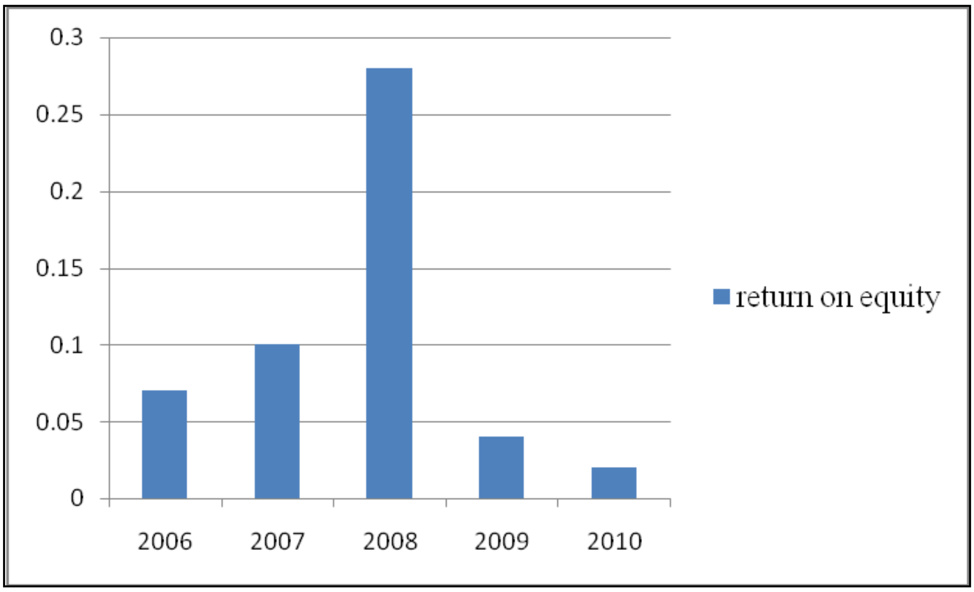
Table 4.15 Return on Capital analysis of China Unicom

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Return on equity	0.02	0.04	0.28	0.1	0.07

Return on equity reflects (e.g.: Table 4.15) the profitability of the owner of the investment, the higher the ratio, the benefits from the investment will be higher. Emphasize the relationship between investment and reward; it is the main indicator for the evaluation of corporate capital operating efficiency. In China Unicom, the ratio remained at around 5%, was relatively stable.

And the ratio increased to 10% and 28% in 2007 and 2008, indicating that capacity of access to benefit through investment and operational efficiency rapid rise within the two years. The degree of assurance to interests of corporate investors and creditors was much more improved. But the ratio declined in 2009 and 2010, indicating that company was difficult to get benefit from own assets and operational efficiency became poor. The degree of assurance to interests of corporate investors and creditors was reducing.

Table 4.16 Bar chart of Return on equity change



The return on equity of the enterprise is related to manager performance, return on investment for investors, creditors, debt security, the wage levels of the enterprise workers and the fiscal revenue of whole country, and the general point of view, China Unicom's profit capacity should be improved, but, in particular, 2007 and 2008, this two years profitability was very strong.

4.2.6 Activity ratios analysis

Activity ratios help investors evaluate a firm's ability to effectively and efficiently manage its operations and assets. The most commonly used activity ratios include: inventory turnover/days inventory on hand, accounts receivable turnover/days sales outstanding, accounts payable turnover/days payable, the cash cycle, asset turnover.

Table4.17 Operating activity analysis of China Unicom

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Total assets turnover	0.73	0.41	0.62	0.7	0.69
Current assets turnover	8.24	4.74	5.77	5.35	5.34
Fix assets turnover	1.16	0.6	0.9	1.02	1
Inventory turnover	40.3	58.97	52.01	25.08	26.38
Inventory turnover period	8.93	6.1	6.92	14.35	13.64
Receivable turnover	33.85	16.51	24.27	29.6	23.74
Receivable turnover period	20.72	21.8	14.83	12.16	15.17

(1) Total assets turnover

The total asset turnover is an important indicator to examine the operational efficiency of corporate assets, reflecting all the assets of the business during the transfer speed from input to output, reflecting all the assets of the enterprise management quality and efficiency. The number of days China Unicom's total assets turnover remained relatively stable, basic changes between the 0.5-0.7 each year. Enterprises should take measures to improve the efficiency of asset utilization and disposal of excess and idle assets, increase sales, thereby increasing the total asset turnover.

Table 4.18 Line graph about Assets turnover changes

(2) Current assent turnover

Current asset turnover was 5.34 in 2007, 5.35 in 2007 and it was up to 5.77 in 2008, the higher the absolute value of current assets turnover, indicating that the company higher operating efficiency, but in 2009, it declined. Current assets turnover, accounts receivable turnover and inventory turnover, the great deal of difference among them are bank deposits, cash and cash equivalents accounted for a significant proportion of current assets, and the company has accumulated more cash.

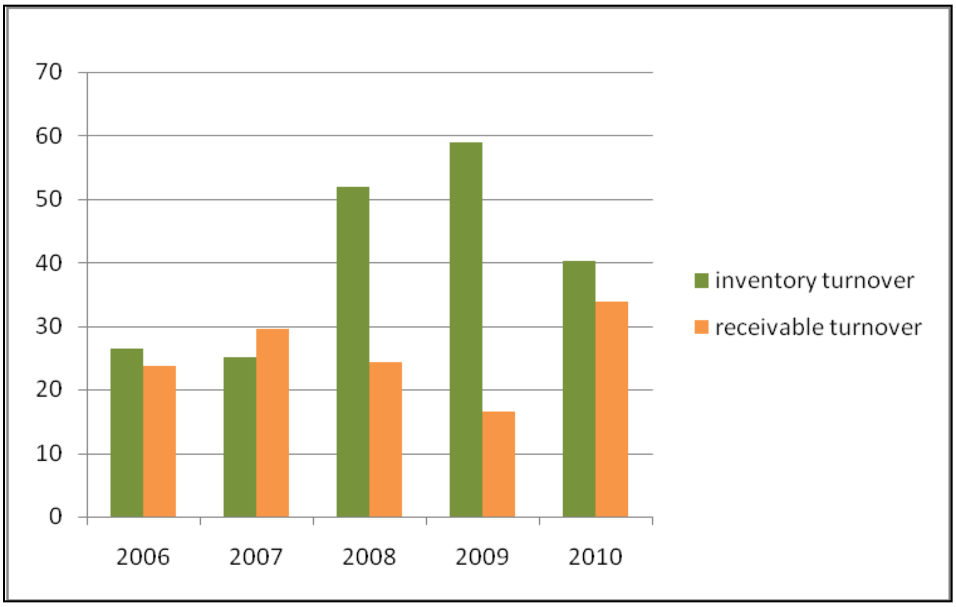
(3) Fix assets turnover

Fixed asset turnover was up to 1.02 in 2007 and 0.90 in 2008. To a capital-intensive enterprise, the high proportion of fixed assets, fixed asset turnover ratio can be maintained close to 1, it has a good operating efficiency.

(4) Inventory turnover

China Unicom as the telecom company should have no inventory, the data show that the inventory of China Unicom is the customized mobile phone; the phone is mainly used for sale promotion, or integral feedback to the user. China Unicom, the inventory turnover rate was relatively high, indicating that the inventory was not a big in company, small occupation of the capital of the company.

Table 4.19 Bar chart of Inventory turnover and Receivable turnover change



(5) Receivable turnover

The company's accounts receivable turnover has the maximum value was 29.60 in 2007, after that, 2009 and 2010 years decreased greatly, indicating that the capacity of company's accounts receivable was weaken. But the absolute value of the accounts receivable turnover ratio was high, which means that the recycle capacity of the company's accounts receivable was strong. The ability of company, which can prevent users from owing are relatively strong. And the bad debts of company were extracted in time.

Through the analysis of the data, we know that the operating capacity of company is very good. The management of working assets is great and the efficiency of the operating assets is high.

4.3 Analysis of Enterprises Development Capability

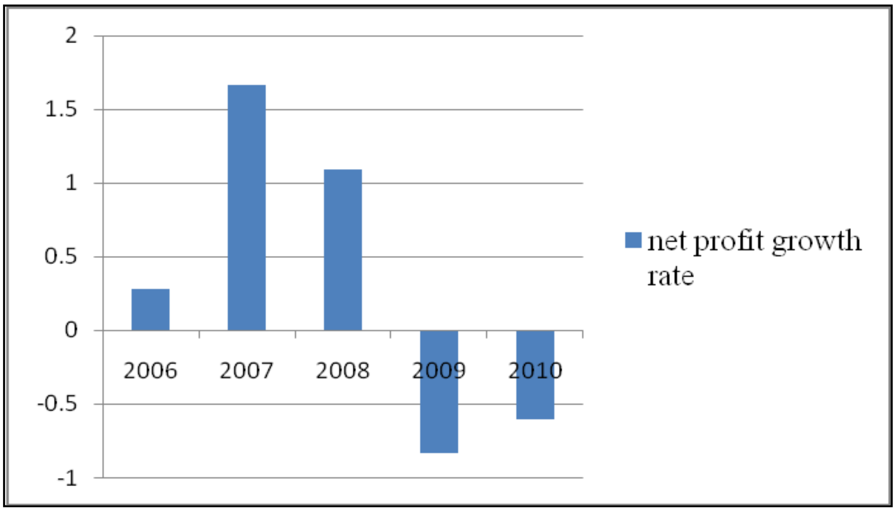
Enterprises development capability is also known as business growth. It is through its own production and business activities continue to expand the accumulation and formation of development potential. Enterprise healthy development depends on many factors, including the external business environment, the inherent quality and resource conditions. The main measure of enterprise development capability is net income growth rate. And the sale growth and assets growth also is an important indicator for evaluation of growth status and ability.

Table 4.20 Net profit growth of enterprise development capability of China Unicom

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Net profit growth rate	-0.61	-0.84	1.09	1.66	0.28

In terms of profitability analysis, we have already analysis the gross profit margin ratio and operating profit margin ratio. We will talk about the net profit growth rate. (e.g.: Table 4.21) The net profit is the result of business performance, net profit growth of corporate growth characteristics.

Table 4.21 Bar chart of Net profit growth rate changes



Net profit increased great considerably from 2006 to 2008, indicating that the company during this period outstanding operational performance and strong market competitiveness, but in 2009, net profit dropped significantly, that the company's operating results fell, weakened competitiveness in the market.

4.3.1 Sales growth capacity

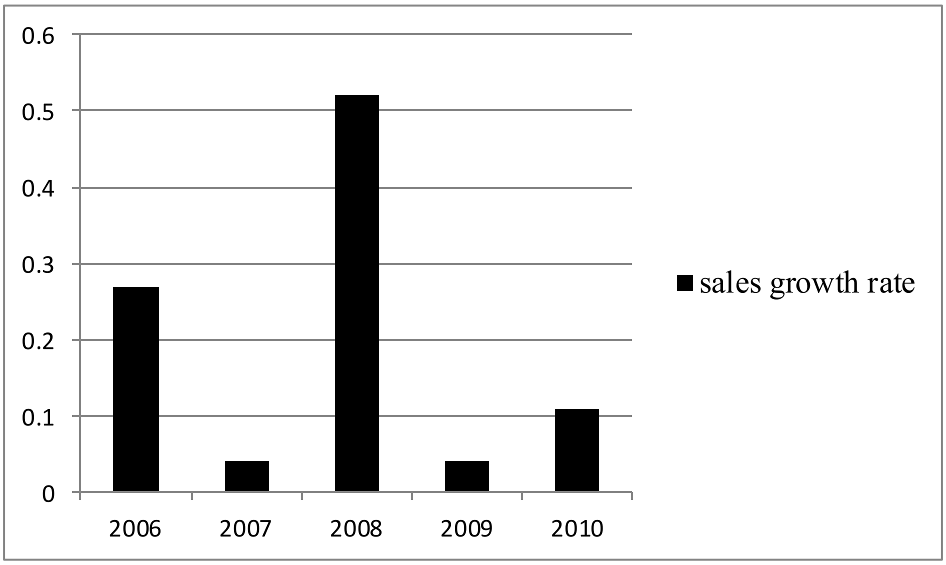
The sales growth index reflects the Changes in the sales, compared with the absolute amount of sales increase; it can reflect the company's development better.

Table 4.22 Sales growth of enterprise development capability

	Dec/10	Dec/09	Dec/08	Dec/07	Dec/06
Sales growth rate	0.11	0.04	0.52	0.04	0.27

Sales growth rate is a measure of operations and market power and it is an important sigh to forecast the company business development and extend, but also is a precondition to expand the amount of stock of capital.

Table 4.23 Bar chart of Sales growth changes

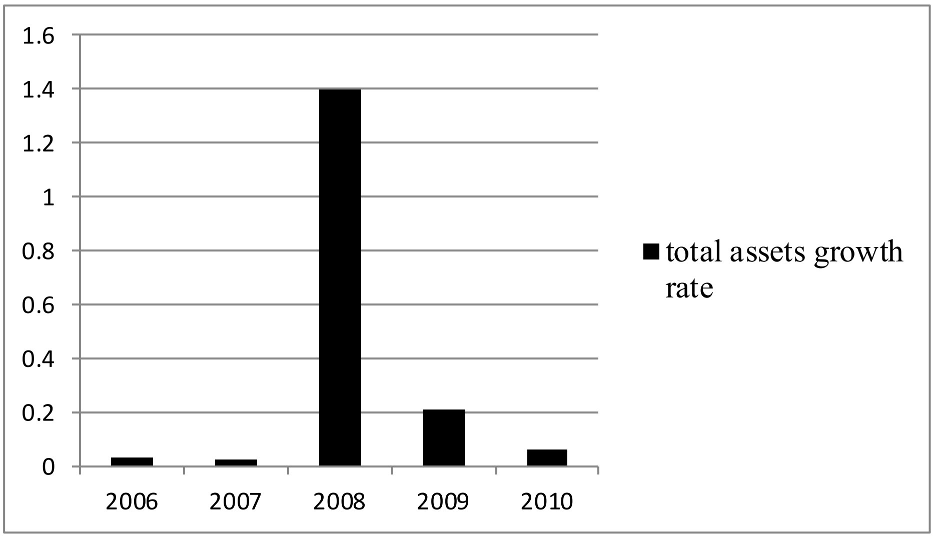


The company's sales growth in 2008 reached 0.52, mainly due to the market restructuring of China's telecom in 2008; China Unicom should seize this opportunity to better development. But it was dropped to 0.04 in 2009, because the sales growth of company increased in 2009 but less than 2008, which led to a slowdown in the growth of the enterprise, marketing capabilities decline. Indicating that business conditions and market share dropped. Increasing sales revenue is the basis of survival and development conditions.

4.3.2 Asset growth capacity

The total asset growth rate has a substantial increase in 2008, which more than 2007, indicating that the extension of asset management faster in a business cycle, mainly due to the merger of former China Unicom red-chip Company and China Netcom the red-chip companies.

Table 4.24 Bar chart about Total assets growth rate changes



4.4 Summary

Current ratio and quick ratio of China Unicom have a downward trend from 2006 to 2009, but they have an upward trend from 2009 to 2010 year. So we can forecast solvency of China Unicom will be enhanced in the future. Accounts receivable turnover ratio has an upward trend, and receivables will speed up, and shorten the average collection period, losses on bad debt reduce in the future. Earnings will has an upward trend, and downward trend in profit after tax in the future. China Unicom's debt to equity ratio has a steady downward trend, indicating that China Unicom will have a strong financial strength in the future. The interest coverage ratio was an upward trend, and the value is relatively large, China Unicom will have adequate capacity to pay interest. In general, China Unicom have a good prospects for development, but it won’t have a dramatic rises.

Chapter5 Conclusions

China Unicom's business remains the continued growth, but growth is slowing down, and the development trend is uncertain. Further analysis the trend of growth of revenue and marketing costs, we can see two large contingency. If we from the point of view of half a year, the increase in marketing costs to promote the effect of revenue growth in general there are six-month effective time lag, so we can clearly determine the pace of control the company's marketing strategy. The company has a promotion in January; operating income has significant growth in July, reflecting the company short-sighted behavior to use resources in exchange for the revenue, but also reflects the company's declining revenue trend and human intervention effect.

From the asset structure, the asset size expand further, the company's balance sheet structure has become more rational. But the performance of current assets is unstable, should strengthen the management of current assets and operating efficiency. Main reason of assets operational efficiencies promoted is that operating income continued to grow, under the premise of this, the total assets can be unusual stability. From 2008 to 2010,the proportion of current assets in total assets shows a constant declining trend, fixed assets was sustained upward trend, the stock of fixed assets to maintain a high stability.

The growth is inconsistent with the company's business, indicating that company will use more external resources to support business growth and reduce the company's own capital expenditure, it means the company prefer to using occupation of external resources power, and also shows the deficiencies of the company in the long-term investment. This is bound to affect long-term profitability, and more confirmed that the company has problems in the long-term financing capacity. Visible, the company keep total assets stability is to reduce the stock of liquid assets to maintain the stock of fixed assets, to take advantage of this deformity of the asset structure to enhance the operational efficiency of assets.

Analysis of the financial statements of China Unicom, and China's economic activities of business processes, the Group's internal control points and the Group's vision, it is recommended that China Unicom to build financial management system. We should keep effective control of the whole process of financial reporting, to ensure the authenticity of financial information. Construction of China Unicom's financial management system should proceed from the accounting. Promote the efficient operation of China Unicom to promote the healthy development of China's telecommunications industry.

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List of Abbreviation

3G	The 3rd Generation Telecommunication
CDMA	Code Division Multiple Access
CPC	Communist Party of China
CCF	The global Code Division Multiple Access Certification Forum
CECA	National Informatization Evaluation Center
EPS	Earning Per share
EBIT	Earnings Before Interest and Taxes
GSMA	Global System for Mobile Communications Association
GSM	Global System for Mobile Communications
GPRS	General Packet Radio Service
GDP	Gross Domestic Product
HKSE	Hong Kong Stock Exchange
IP	Internet Protocol
IPLC	International Private Leased Circuit
ICT	Information and Communications Technology
IT	Information Technology
IOT	Interoperability Test
MII	Ministry of Information Industry
MPT	Myanmar Post and Telecommunications
NYSE	New York Stock Exchange

PHS	Public Health Service
PC	Personal Computer
RCS	Rich Communication Suite
SME	Short Message Entity
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
WCDMA	Wideband Code Division Multiple Access

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Ostrava dated………………..

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List of annexes

Annexes 1:

Balance sheet of China Unicom from 2006-2010

Balance Sheet - Annual Results	2010-12	2009-12	2008-12	2007-12	2006-12
Fixed Assets	401,173	388,510	310,877	127,673	121,248
Current Assets	41,673	29,663	36,160	16,836	20,246
Other Assets	619	1,059	0	508	458
Total Assets	443,465	419,232	347,037	145,017	141,952
Long Term Debt	37,392	10,774	13,002	2,153	14,480
Short Term Debt	197,894	199,610	125,038	49,418	51,889
Total Debt	235,286	210,384	138,040	51,571	66,369
Other Long Term Liabilities	2,355	2,994	5,095	13,439	-589
Current Liabilities	197,894	199,612	125,038	49,418	51,889
Total liabilities	237,641	213,380	143,135	65,010	65,780
Share Capital	2,310	2,310	2,329	1,437	1,344
Reserves	203,531	204,155	205,396	177,075	78,064
shareholder's equity	208,180	208,845	208,997	92,937	75,582
Currency	RMB	RMB	RMB	RMB	RMB
Unit	Mn	Mn	Mn	Mn	Mn
Inventory	3,728	2,412	1,170	2,528	2,334
Cash On Hand	22,768	8,816	10,574	12,714	12,378

Annexes 2:

Income statement of China Unicom from 2006-2010

Profit Loss - Annual Results	2010-12	2009-12	2008-12	2007-12	2006-12
Turnover	171,298	153,945	159,792	100,468	95,347
Operating Profit	4,773	11,038	21,490	10,348	8,962
Exceptional Items	0	1,239	-11,837	-569	-2,397
Profit Before Taxation	4,646	12,181	7,482	13,155	6,033
Taxation	922	2,721	1,828	3,836	2,764
Net Profit	3,671	9,373	33,727	9,319	3,365
Currency	RMB	RMB	RMB	RMB	RMB
Unit	Mn	Mn	Mn	Mn	Mn
Depreciation	54,433	47,587	47,961	47,369	22,687
Interest Paid	1624	1022	3,053	-210	1194
Interest Capitalized	0	806	260	439	431
Non-current Assets Revaluation / Disposal	0	0	-11837	0	0
Taxation Rate (%)	19.32	22.16	24.22	31.89	42.55
Turnover Growth (%)	11.27	-15.46	-0.23	93.54	8.32
Net Profit Growth (%)	-59.7	-73	65.13	353.48	-24.32

Annexes 3:

Cash flow of China Unicom from 2006-2010

Part 1

Cash Flow - Annual Results	2010-12	2009-12	2008-12	2007-12	2006-12
Net Cash Flow from Operating Activities	69,260	63,990	67,794	36,836	38,522
Net Cash Flow from Return on Investments & Servicing of Finance	-5,131	-5,983	-8,165	-2,594	-2,342
Interest Received	148	93	269	189	249
Interest Paid	-2,025	-1,681	-3,011	-498	-1,207
Dividend Received	416	177	3	0	0
Dividend Paid	-3,670	-4,572	-6,082	-2,285	-1,384
Others	0	0	656	0	0
Taxes (Paid) / Refunded	-1,039	-4,669	-7,811	-4,195	-2,113
Net Cash Flow from Investing Activities	-71,909	-90,524	-25,256	-24,967	-17,337
Additions to Fixed Assets	-75,555	-78,130	-48,127	-21,502	-16,745
Disposal of Fixed Assets	375	611	488	82	59
Increase in Investments	0	-3,896	-5,880	-880	0
Net Cash Flow with Related Parties	0	0	0	0	0
Others	3,271	-9,109	28,263	-2,667	-652
Net Cash Flow before Financing Activities	-8,819	-37,186	26,562	5,080	16,730
Net Cash Flow from Financing Activities	23,494	34,769	-28,988	-10,648	-10,019
New Loans	114,982	96,204	53,602	0	3,488

Cash flow of China Unicom from 2006-2010

Part 2

Loans Repayment	-141,451	-44,481	-75,717	-3,991	-19,254
Fixed Income/Debt Instruments	50,027	0	15,000	0	14,943
Repayment of Fixed Income/Debt Instruments	0	-10,000	-20,000	-6,970	-9,732
Equity Financing	0	0	450	313	535
Net Cash Flow with Related Parties	0	2,114	-2,222	0	0
Others	-64	-9,068	-101	0	0
Increase(Decrease) in Cash & Cash Equivalents	14,675	-2,417	-2,426	-5,568	6,711
Cash & Cash Equivalents at Beginning of Year	7,820	10,237	12,663	12,243	5,472
Net Cash Flow due to Change in Exchange Rate/Others	0	0	0	0	0
Cash & Cash Equivalents at End of Year	22,495	7,820	10,237	6,676	12,182
Currency	RMB	RMB	RMB	RMB	RMB
Unit	Mn	Mn	Mn	Mn	Mn

Annexes 4:

Ratios of China Unicom from 2006-2010

Part 1

	2010-12	2009-12	2008-12	2007-12	2006-12
Current ratio	0.214	0.154	0.289	0.341	0.399
Quick ratio	0.195	0.142	0.280	0.290	0.354
Cash ratio	0.115	0.044	0.076	0.148	0.240
Debt-assets ratio	0.531	0.502	0.398	0.356	0.468
Debt-equity ratio	1.130	1.007	0.660	0.555	0.878
Interest coverage ratio	3.861	12.919	3.451	-61.643	6.053
Debt to tangible assets ratio	1.248	1.112	0.725	0.601	0.949
Gross profit margin ratio	0.298	0.333	0.370	0.388	0.388
Operating profit margin	0.026	0.077	0.049	0.131	0.062
Return on assets ratio	0.011	0.03	0.04	0.09	0.05
Return on current assets ratio	0.104	0.34	0.2	0.55	0.34
Return on fix assets ratio	0.01	0.04	0.03	0.11	0.06
Return on equity	0.02	0.04	0.28	0.1	0.07
Total assets turnover	0.73	0.41	0.62	0.7	0.69
Current assets turnover	8.24	4.74	5.77	5.35	5.34
Fix assets turnover	1.16	0.6	0.9	1.02	1

Ratios of China Unicom from 2006-2010

Part 2

Inventory turnover	40.3	58.97	52.01	25.08	26.38
Inventory turnover period	8.93	6.1	6.92	14.35	13.64
Receivable turnover	33.85	16.51	24.27	29.6	23.74
Receivable turnover period	20.72	21.8	14.83	12.16	15.17
Net profit growth rate	-0.61	-0.84	1.09	1.66	0.28
Sales growth rate	0.11	0.04	0.52	0.04	0.27
Total assets growth rate	0.06	0.21	1.4	0.02	0.03